

Interim Condensed Consolidated Financial Statements of

CHALICE BRANDS LTD.

(Formerly Golden Leaf Holdings Ltd.)

As at and for the three months ended March 31, 2021 (Unaudited)

(Expressed in US \$)

CHALICE BRANDS LTD.

(Formerly 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, 2021

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CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

As at March 31, 2021 and December 31, 2020

(Expressed in U.S. dollars)

		March 31, 2021	December 31, 2020
CURRENT			
Cash		\$ 10,475,394	\$ 905,149
Accounts receivable	Note 5	272,288	108,308
Other receivables	Note 5	593,133	737,185
Notes receivable		919,488	919,488
Sales tax recoverable		35,673	89,033
Biological assets	Note 6	511,277	455,045
Inventory	Note 6	2,818,333	2,304,501
Prepaid expenses and deposits		573,137	555,597
Total current assets		16,198,723	6,074,306
Property, plant and equipment	Note 7	2,220,922	2,361,357
Other receivables	Note 5	656,718	656,718
Right-of-use assets, net	Note 8	4,002,018	4,132,035
Intangible assets	Note 9	10,737,423	10,737,423
Goodwill	Note 9	4,056,172	4,056,172
Total assets		\$ 37,871,976	\$ 28,018,011
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 3,652,595	\$ 3,404,425
Interest payable		48,138	28,100
Income taxes payable		1,263,604	1,003,604
Deferred income tax payable		55,039	55,039
Sales tax payable		213,856	217,789
Current portion of long-term debt	Note 11	18,189	22,171
Notes payable	Note 10	48,414	119,533
Convertible debentures carried at fair value	Note 10	-	5,575,273
Lease liability	Note 11	993,053	949,496
Total current liabilities		6,292,888	11,375,430
Long-term debt	Note 11	53,501	134,675
Long-term lease liability	Note 11	4,054,491	4,372,395
Warrant liability	Note 12	5,154,149	-
Convertible debentures carried at amortized cost	Note 10	2,805,895	-
Consideration payable - cash portion	Note 11	1,872,654	1,824,533
Consideration payable - equity portion	Note 11	4,838,780	4,838,780
Total liabilities		25,072,358	22,545,813
SHAREHOLDERS' EQUITY			
Share capital	Note 13	161,085,272	149,754,502
Warrant reserve	Note 14	204,484	1,079
Convertible debenture equity component	Note 12	374,437	-
Share option reserve	Note 15	3,763,065	4,070,474
Contributed surplus		2,329,997	2,329,997
Deficit		(154,957,637)	(150,683,854)
Total shareholders' equity		12,799,618	5,472,198
Total liabilities and shareholders' equity		\$ 37,871,976	\$ 28,018,011

Going concern (Note 2)

See accompanying notes to these interim condensed consolidated financial statements.

Approved on behalf of the Board:
 (Signed) "Scott Secord", Director
 (Signed) "Karl R. Miller, Jr.", Director

CHALICE BRANDS LTD.

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

For the three months ended March 31, 2021 and 2020

(Expressed in U.S. dollars)

		For the three months ended March 31,	
		2021	2020
Revenues			
Product sales	Note 20	\$ 5,033,314	\$ 4,239,582
Royalty and other revenue	Note 20	462,141	430,722
Total Revenue		5,495,455	4,670,304
Inventory expensed to cost of sales	Notes 6, 20	3,180,925	2,964,192
Gross margin, excluding fair value items		2,314,530	1,706,112
Fair value changes in biological assets included in inventory sold		(84,329)	-
Gain on changes in fair value of biological assets	Notes 6, 20	(81,763)	(20,714)
Gross profit		2,480,622	1,726,826
Expenses			
General and administration		2,134,017	2,045,274
Share based compensation	Note 15	69,050	129,579
Sales and marketing		316,123	535,026
Depreciation and amortization	Note 7	224,931	568,345
Total expenses		2,744,121	3,278,224
Loss before items noted below		(263,499)	(1,551,398)
Interest expense	Notes 10, 11	429,221	551,101
Transaction costs		34,620	-
Other loss (income)		84,466	(20,617)
Loss on change in fair value of warrant liabilities	Note 12	2,974,493	-
Loss on change in fair value of convertible debentures	Note 10, 12	172,956	-
Loss on debt extinguishment	Note 10	88,079	-
Loss before income taxes		(4,047,334)	(2,081,882)
Current income tax expense		275,000	358,284
Net loss		\$ (4,322,334)	\$ (2,440,166)
Comprehensive loss		\$ (4,322,334)	\$ (2,440,166)
Basic and diluted loss per share from continuing operations		\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding		1,117,610,381	873,783,951

See accompanying notes to these interim condensed consolidated financial statements.

CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
 For the three months ended March 31, 2021 and 2020
 (Expressed in U.S. dollars)

	Share Capital	Warrant Reserve	Convertible debenture equity component	Stock compensation reserve	Contributed surplus	Deficit	Total
Balance, January 1, 2020	\$ 147,763,499	\$ 1,980,217	\$ -	\$ 4,181,350	\$ 59,940	\$ (143,383,806)	\$ 10,601,200
Issuance of common shares (Note 13)	109,503	-	-	-	-	-	109,503
Share-based compensation (Note 15)	-	-	-	129,579	-	-	129,579
Expiry of warrants and stock options (Notes 14,15)	-	(426,367)	-	(228,919)	-	655,286	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(2,440,166)	(2,440,166)
Balance at March 31, 2020	\$ 147,873,002	\$ 1,553,850	\$ -	\$ 4,082,010	\$ 59,940	\$ (145,168,686)	\$ 8,400,116

	Share Capital	Warrant Reserve	Convertible debenture equity component	Stock compensation reserve	Contributed surplus	Deficit	Total
Balance, January 1, 2021	\$ 149,754,502	\$ 1,079	\$ -	\$ 4,070,474	\$ 2,329,997	\$ (150,683,854)	\$ 5,472,198
Issuance of common shares (Note 13)	8,353,918	-	-	-	-	-	8,353,918
Convertible debenture modification (Note 10)	-	-	698,352	-	-	-	698,352
Debenture conversions (Note 10)	2,660,350	-	(323,915)	-	-	-	2,336,435
Issuance of warrants (Note 14)	-	203,405	-	-	-	-	203,405
Share-based compensation (Note 15)	-	-	-	69,050	-	-	69,050
Management compensation (Note 13, 16)	316,502	-	-	(327,908)	-	-	(11,406)
Expiry of warrants and stock options (Notes 14,15)	-	-	-	(48,551)	-	48,551	-
Net loss and comprehensive loss for the year	-	-	-	-	-	(4,322,334)	(4,322,334)
Balance at March 31, 2021	\$ 161,085,272	\$ 204,484	\$ 374,437	\$ 3,763,065	\$ 2,329,997	\$ (154,957,637)	\$ 12,799,618

See accompanying notes to these interim condensed consolidated financial statements.

CHALICE BRANDS LTD.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

For the three months ended March 31, 2021 and 2020

(Expressed in U.S. dollars)

	For the three months ended March 31,	
	2021	2020
Cash (used in) provided by:		
OPERATING ACTIVITIES:		
Net loss	\$ (4,322,334)	\$ (2,440,166)
Depreciation of property, plant and equipment	Note 7 257,240	369,360
Lease amortization	204,385	198,985
Interest expense	429,221	416,146
Income tax expense	275,000	382,326
Share based compensation	Note 15 69,050	129,579
Transaction costs	34,620	-
Loss on debt extinguishment	Note 10 88,079	-
Loss on fair value adjustment to warrant liabilities	Note 10 2,974,493	-
Loss on fair value adjustment to debt	172,956	-
Gain on fair value of biological assets	Note 6 (166,092)	(20,714)
Other non-cash transactions	(214,346)	41,338
Changes in working capital items		
Accounts receivable	Note 5 (53,452)	(92,246)
Other receivables	Note 5 33,524	(4,372)
Sales tax recoverable	53,360	(11,465)
Accounts payable and accrued liabilities	154,256	570,573
Sales tax payable	(3,933)	(176,238)
Biological assets	Note 6 109,860	(75,136)
Inventory	Note 6 (349,486)	(740,465)
Prepaid expenses and deposits	(17,540)	(233,140)
Cash used in operating activities	(271,139)	(1,685,635)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	Note 7 (131,824)	(66,364)
Cash used in investment activities	(131,824)	(66,364)
FINANCING ACTIVITIES		
Issuance of common shares	Note 13 10,700,119	-
Payment of share issuance costs	(200,063)	-
Payment of lease liabilities	(310,573)	(149,822)
Repayment of long-term debt	Note 11 (156,275)	(6,231)
Interest paid	Note 11 (60,000)	(80,048)
Other non-cash transactions	0	-
Cash provided (used) in financing activities	9,973,208	(236,101)
Decrease in cash during the period	9,570,245	(1,988,100)
Cash, beginning of period	905,149	3,531,202
Cash, end of period	\$ 10,475,394	\$ 1,543,102

See accompanying notes to these interim condensed consolidated financial statements

CHALICE BRANDS LTD.

(Formerly 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, 2021

1. Incorporation and operations

Chalice Brands Ltd.. ("Chalice" or the "Company") is a publicly traded corporation, incorporated in Canada, operating primarily in the Oregon, Nevada, California and Washington markets. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the trading symbol "CHAL" 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, California and Washington adult-use regulated markets, primarily through its main operating subsidiaries, Greenpoint Oregon, Inc., Greenpoint Nevada, Inc., and CFA Retail, LLC.

2. Going concern

The Company 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. As at March 31, 2021, the Company had an accumulated deficit of \$154,957,637 (December 31, 2019 - \$150,683,854). 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 at March 31, 2021, the Company's cash balances were \$10,475,394 (December 31, 2020 - \$905,149). 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 consolidated financial statements have been prepared on a going concern basis that assumes the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business 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.

The 2020 outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and has impacted worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. As at the financial statement approval date, the outbreak and the related mitigation measures have had the following impacts on the Company's operations, among others: required compliance with enhanced federal employee benefits regulations, intermittent supply chain disruptions and cash

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(Formerly Golden Leaf Holdings Ltd.)

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As at and for the three months ended March 31, 2021

2. Going concern (continued)

management challenges. The extent to which these events may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in the U.S. and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine the ultimate financial impacts at this time.

3. Statement of compliance

These interim condensed consolidated 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, 2020 ("last annual financial statements"), which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The interim condensed consolidated 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.

These interim financial statements were approved by the Company's Board of Directors on May 24, 2021.

4. Basis of presentation

Except where specified, the interim condensed consolidated 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. The accounting policies applied in these interim condensed consolidated financial statements are the same as those applied in the annual financial statements as of December 31, 2020. Certain prior period amounts have been reclassified to be consistent with current period presentation.

5. Accounts receivable

	March 31, 2021	December 31, 2020
Accounts Receivable	\$ 388,804	\$ 293,805
Allowance for doubtful accounts	(116,516)	(185,497)
	\$ 272,288	\$ 108,308
Continuity of allowance for doubtful accounts		
	March 31, 2021	December 31, 2020
Beginning balance	\$ 185,497	\$ 378,094
Increase in provision for doubtful accounts	-	22,864
Provision used for write-off of receivables	(68,981)	(215,461)
	\$ 116,516	\$ 185,497

All of the Company's accounts receivable have been reviewed for indicators of impairment. Accounts receivable more than 90 days past due totaled \$125,600 as at March 31, 2021 (December 31, 2020 - \$165,764). Amounts at risk of collection have been provided for in the allowance for doubtful accounts.

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(Formerly 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, 2021

5. Accounts receivable (continued)

Other receivables as at March 31, 2021 were \$1,249,851 (December 31, 2020 - \$1,393,903). Included in this balance were long-term receivables of \$656,718 as at March 31, 2021 (December 31, 2020 - \$656,718), related to funds advanced via short-term secured promissory notes to TozMoz, LLC ("TozMoz"), which the Company is in the final stages of acquiring. These notes carry interest rates ranging from 8-15% and are secured primarily by the production equipment owned by TozMoz and will offset the cash component of consideration payable upon the close of the transaction. The acquisition of TozMoz has not closed as at March 31, 2021.

In addition, other receivables, net of allowance, include \$593,133 (December 31, 2020 - \$554,691) owed to the Company as a result of contract manufacturer arrangements in California. These receivables represent sales proceeds collected or collectable by the contract manufacturers related to sales of Chalice products to the Company's designated distributor, less amounts owed to the contract manufacturers for costs incurred in the production process. The Company estimated a reserve of \$110,528 against these receivable balances as at March 31, 2021 (December 31, 2020 \$62,000).

6. 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 and an estimate is made of the yield that the plants will bear.

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, the selling price of dry cannabis, the stage of plant growth relative to the harvest date, 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 122.6 grams per plant in the valuation of biological assets as of March 31, 2021 (December 31, 2020 – 136.0 grams). 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 \$2.14 per gram of biological assets as at March 31, 2021 (December 31, 2020 - \$2.07 per gram). Fair value at the point of harvest is estimated based on the selling price less any costs to sell at harvest.

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(Formerly 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, 2021

6. Biological assets and inventory (continued)

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, 2021 and December 31, 2020, these prices represented the ultimate selling prices to wholesale buyers.
- Stage of growth – represents the weighted average number of weeks out of the 15-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.

As at March 31, 2021, on average, the biological assets were 44.5% complete as to the next expected harvest date.

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

Significant Inputs and Assumptions	March 31, 2021	Effect on Fair Value as at	
		March 31, 2021	
		Decrease 10%	Increase 10%
Selling price per gram	\$ 2.14	\$ 51,128	\$ 51,128
Stage of growth	6.7 weeks	\$ 64,580	\$ 64,846
Estimated yield per plant per gram	122.58	\$ 51,128	\$ 51,128
Wastage	0.42%	\$ 212	\$ 216

During the three months ended March 31, 2021 and 2020, the Company recognized a gain of \$81,763 and \$20,714, respectively, on the change in fair market value of biological assets.

This gain or loss 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, 2021 and 2020, \$236,694 and \$262,885, respectively of depreciation and lease amortization was allocated to inventory. Any costs incurred to bring inventory to the condition and location of sale are included in the cost of inventory. Inventory expensed to cost of sales for the three months ended March 31, 2021 and 2020 was \$3,180,925 and \$2,964,192, respectively.

CHALICE BRANDS LTD.

(Formerly 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, 2021

6. Biological assets and inventory (continued)

The Company's inventory at March 31, 2021 and December 31, 2020 consisted of:

	Biological assets	Inventory
Raw materials	\$	376,025
Work-in-process		656,459
Finished goods		1,272,018
Balance, December 31, 2020	\$	2,304,501
Raw materials		547,870
Work-in-process		931,017
Finished goods		1,339,446
Balance, March 31, 2021	\$	2,818,333

At March 31, 2021, the Company also recorded a general reserve for excess and obsolete inventory in the amount of \$nil (December 31, 2020 - \$164,347).

The Company's biological assets as at March 31, 2021 and December 31, 2020 are comprised of:

Biological assets	
Balance, January 1, 2020	\$ 88,078
Loss on fair value of biological assets	(353,059)
Increase in biological assets due to capitalized costs	1,313,270
Transfer to finished goods	(593,244)
Balance, December 31, 2020	\$ 455,045
Gain on fair value of biological assets	81,763
Increase in biological assets due to capitalized costs	299,503
Transfer to finished goods	(325,034)
Balance, March 31, 2021	\$ 511,277

CHALICE BRANDS LTD.

(Formerly 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, 2021

7. Property, plant and equipment

The following table reflects the continuity of property, plant and equipment from January 1, 2021 to March 31, 2021:

	Production equipment	Leasehold improvements	Computer Equipment and Software	Furniture and Fixtures	Vehicles	Total
Cost						
Balance, January 1, 2021	\$ 2,507,279	\$ 4,174,454	\$ 337,053	\$ 995,292	\$ 217,380	\$ 8,231,458
Additions	114,764	1,225	-	15,835	-	131,824
Dispositions	(22,000)	-	(28,703)	(50,263)	-	(100,966)
Balance, March 31, 2021	\$ 2,600,043	\$ 4,175,679	\$ 308,349	\$ 960,865	\$ 217,380	\$ 8,262,316
Accumulated Amortization						
Balance, January 1, 2021	\$ (1,852,820)	\$ (2,700,105)	\$ (270,863)	\$ (899,725)	\$ (146,588)	\$ (5,870,101)
Expense	(83,070)	(145,126)	(11,250)	(13,432)	(4,362)	(257,240)
Dispositions	11,358	-	28,550	46,039	-	85,947
Balance, March 31, 2021	\$ (1,924,532)	\$ (2,845,231)	\$ (253,563)	\$ (867,118)	\$ (150,950)	\$ (6,041,394)
Carrying amount						
At December 31, 2020	\$ 654,459	\$ 1,474,349	\$ 66,190	\$ 95,567	\$ 70,792	\$ 2,361,357
At March 31, 2021	\$ 675,511	\$ 1,330,448	\$ 54,786	\$ 93,747	\$ 66,430	\$ 2,220,922

Total depreciation expense for the three months ended March 31, 2021 and 2020 was \$257,240 and \$369,360, respectively.

8. Right-of-Use Assets

The Company and its subsidiaries have entered into lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, grow facilities, and vehicles.

A continuity of the right-of-use asset for the three months ended March 31, 2021 is as follows:

	March 31, 2021	December 31, 2020
Right-of-use asset, beginning balance	\$ 4,132,035	\$ 4,333,064
Additions	-	773,420
Disposals	-	(132,843)
Lease adjustments	74,368	(75,064)
Amortization	(204,385)	(766,542)
Right-of-use asset, ending balance	\$ 4,002,018	\$ 4,132,035

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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, 2021

9. Intangible assets and goodwill

The following table reflects the balance of intangible assets as at March 31, 2021 and December 31, 2020:

	Licenses	Brands	Total
Cost			
Balance, December 31, 2020	\$ 1,955,677	\$ 8,781,746	\$ 10,737,423
Balance, March 31, 2021	\$ 1,955,677	\$ 8,781,746	\$ 10,737,423

Goodwill was \$4,056,172 as at March 31, 2021 and December 31, 2020.

10. Convertible debentures and notes payable

	March 31, 2021	December 31, 2020
Notes payable	\$ 48,414	\$ 119,533
Convertible debentures carried at fair value	-	5,575,273
Convertible debentures carried at amortized cost	2,805,895	-
Carrying amount at end of period	\$ 2,854,309	\$ 5,694,806

In January 2021, the Company received unanimous approval to amend certain terms of the convertible debentures. The amendments included extending the maturity date from November 16, 2021 to November 16, 2022 and the conversion price of the principal changed from C\$0.30 to US\$0.06 per common share. The debentureholders also received a one-time restructuring fee of 2% of the principal amount to be paid in common shares equal to US\$0.06 per share (Note 13).

The Company concluded that this debenture modification was significant and accounted for it as an extinguishment and reissuance of the debentures, resulting in a loss on debt extinguishment of \$88,079. Further, because the conversion price is now denominated in the same US\$ currency as its functional currency, this is no longer considered a derivative and is now accounted for at amortized cost. The conversion feature has been recorded in equity.

During the three months ended March 31, 2021, the Company converted debentures with a face value of \$3,674,000 into common shares.

The following table reflects the continuity of its convertible debentures for March 31, 2021 and December 31, 2020:

	March 31, 2021	December 31, 2020
Beginning balance	\$ 5,575,272	\$ 4,706,141
Loss on change in fair value of convertible debentures	172,956	922,137
Loss on debt extinguishment	88,079	-
Recognition of equity component of convertible debt	(698,352)	-
Conversion to common shares	(2,332,060)	(53,006)
Total	\$ 2,805,895	\$ 5,575,272

As at March 31, 2021, the Company has unsecured convertible debentures with a carrying value of \$2,805,895 (December 31, 2020 - \$5,575,273) and principal of \$4,365,000 (December 31, 2020 - \$8,039,000), bearing interest of 10%. As at March 31, 2021, these are classified as long-term debt with a maturity date of November 2022. Interest and accretion expense was \$200,109 and \$250,735 for the three months ended March 31, 2021 and 2020, respectively. Accrued interest of \$48,693 was settled through the issuance of 777,988 shares.

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10. Convertible debentures and notes payable (continued)

Prior to the modification in January 2021, the Company accounted for the convertible debentures at fair value through profit and loss from initial recognition to the date of extinguishment. A loss of \$172,956 and \$nil was recorded through a change in fair value of liabilities on the statement of operations for the three months ended March 31, 2021 and 2020, respectively.

In connection with its pending acquisition of the assets of Tozmoz, LLC, the Company assumed a short-term secured promissory note, and has concurrently executed a note receivable from Tozmoz, LLC in the same amount, which will be deducted from cash consideration due on the final acquisition closing. The note payable balance was \$48,414 as at March 31, 2021 (December 31, 2020 - \$119,533) and bears interest at 15% per annum. The note matures May 1, 2021 and is secured by inventory at the Company's retail locations.

11. Long-term debt and consideration payable

	March 31, 2021	December 31, 2020
Long-term debt - vehicle loans	\$ 71,690	\$ 156,846
Consideration payable	6,711,434	6,663,313
Lease liability	5,047,544	5,321,891
Less: current portion	(1,011,242)	(971,667)
Carrying amount of long-term debt	\$ 10,819,426	\$ 11,170,383

Consideration payable was and \$6,711,434 as at March 31, 2021 (December 31, 2020 - \$6,663,313). The Company recognized \$108,121 and \$247,471 in interest and accretion expense for the three months ended March 31, 2021 and 2020, respectively.

Consideration payable represents earn-out payments to three former owners of Chalice, LLC ("Chalice"), as part of the consideration in the July 2017 acquisition of the assets of CFA Products, LLC and the membership interest of CFA Retail, LLC.

In November 2020, the Company reached an agreement with the former Chalice owners to restructure the consideration payable. Under the new terms, \$2,500,000 of the cash consideration was immediately converted into 41,666,667 shares of GLH common stock. The remaining \$2,500,000 of the cash obligation will be paid on an installment plan carrying 6% interest to be paid over 60 months in equal installments of \$48,332 per month commencing May 2, 2022. The existing equity component remains unchanged and is due on the original maturity on May 2, 2022. Shares will be calculated based on a 30-day trailing VWAP and held in escrow to be released over 60 months commencing May 2, 2022. As a condition of the restructuring, the Company agrees to either attain positive cash flow or raise US\$5,000,000 within 12 months from the execution of the agreement. If the Company fails to meet either the cashflow requirement or the minimum equity raise of \$5,000,000, within 12 months of the agreement, it is required to issue an additional 62,500,000 shares. During the three months ended March 31, 2021, the Company closed non-brokered private placements, raising C\$10,500,000 (Note 13), which is in excess of the requirement to raise \$5,000,000 under the terms of the restructuring agreement related to the consideration payable.

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11. Long-term debt and consideration payable (continued)

The Company applied the guidance under IFRS 9 Financial Instruments and made the determination that the November 2020 modification was a substantial change. As such, the carrying value of the old debt was derecognized and the present value of the new cash flows was recognized. The Company

also noted that the three former Chalice owners involved in this debt restructuring are all existing equity holders, and transactions with equity holder lenders that benefit the borrower may be deemed capital transactions. As such, the Company determined that the extinguishment gain of \$2,270,057 should be reflected as a contribution of capital in equity rather than a gain to consolidated statement of operations.

The Company and its subsidiaries have entered into lease agreements for the Company's dispensaries, corporate offices, wholesale warehouses, grow facilities, and vehicles. Lease liabilities were \$5,047,544 as at March 31, 2021 (December 31, 2020 - \$5,321,891). These balances include \$993,053 of short-term lease liabilities as at March 31, 2021 (December 31, 2020 - \$949,496).

Other long-term liabilities include vehicle loans of \$147,893 as at March 31, 2021 (December 31, 2020 - \$156,846). Included in these balances were short-term liabilities of \$18,189 as at March 31, 2021 (December 31, 2020 - \$22,171).

12. Warrant liability

The Company issued warrants in connection with its non-brokered private placement financings in the three months ended March 31, 2021.

	Number of warrants issued	Fair value
Balance, January 1, 2021	-	\$ -
Warrants - fair value at issuance	227,468,603	2,196,626
Warrants exercised	(667,000)	(16,970)
Change in fair market value	-	2,974,493
Balance, March 31, 2021	226,801,603	\$ 5,154,149

In February 2021, the Company issued 110.4 million warrants in connection with its second non-brokered private placement for the quarter. Each warrant is exercisable to acquire one common share at an exercise price of C\$0.10 per warrant share for a period of 24 months from the closing. The units have a hold period of four months and one day from the date of issuance.

In January 2021, the Company issued 117.1 million warrants in connection with its first non-brokered private placement for the quarter. Each warrant is exercisable to acquire one common share at an exercise price of C\$0.06 per warrant share for a period of 24 months from the closing. The units have a hold period of four months and one day from the date of issuance.

Per IAS 39, the warrants issued under the private placements meet the definition of a derivative, as the exercise price is denominated in a currency different than the functional currency of the Company, and must be measured at fair value at the reporting date.

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12. Warrant liability (continued)

The January 2021 warrants were measured using the Black-Scholes option pricing model at the date of measurement with the following assumptions:

	March 31, 2021
Expected life	2 years
Risk-free interest rate	0.16%
Dividend yield	0.00%
Expected volatility	105.0%

The February 2021 warrants include an acceleration right where the Company may accelerate the expiry time of the warrants if at any time the volume weighted average price ("VWAP") is equal to or greater than 130%, currently C\$0.13, for a period of ten consecutive trading days on the Canadian Securities Exchange. These warrants were measured using the binomial pricing model that takes into account this provision.

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.

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13. Share capital

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

The following table reflects the continuity of share capital from January 1, 2021 to March 31, 2021:

	Number of Shares	Amount
Balance, January 1, 2021	961,742,734	\$ 149,754,502
Shares issued - contingent consideration interest (i)	112,148	2,321
Shares issued - debenture restructuring fee (ii)	2,117,308	126,116
Shares issued - conversion of debentures (iii)	49,120,091	2,660,350
Shares issued - private placement financing (iv)	109,006,439	1,491,294
Shares issued - management participation (iv)	8,090,560	221,779
Shares issued - private placement financing (v)	110,371,604	4,537,859
Subscriptions received for shares issued subsequent to quarter-end (v)	-	2,504,043
Shares issued - w warrant exercise (vi)	667,000	16,969
Share issuance costs	-	(229,961)
Balance, March 31, 2021	1,241,227,884	\$ 161,085,272

- (i) In January 2021, the Company issued 112,148 shares associated with accrued interest on its consideration payable (Note 11)
- (ii) As part of its convertible debenture restructuring, the Company issued 2,117,308 shares as a 2% restructuring fee to its debentureholders (Note 10)
- (iii) During the three months ended March 31, 2021 the Company issued 49,120,091 shares from the conversion of debentures (Note 10)
- (iv) In January 2021, the Company closed on a non-brokered private placement financing and issued 109,006,440 units priced at C\$0.03 per unit for gross proceeds of C\$3.3 million. Each unit is comprised of one common share of the Company and one common share purchase warrant (Note 12). In connection with the private placement, the Company also issued 8,090,560 units at C\$0.05 per share in lieu of unpaid compensation to certain officers and directors, for a total of \$316,502 (Note 16).
- (v) In March 2021, the Company closed on a second non-brokered private placement financing and issued 110,371,604 units priced at C\$0.065 per unit for aggregate gross proceeds of C\$7.2 million. Each unit is comprised of one common share of the Company and one full common share purchase warrant. In this private placement there was \$2,504,043 of subscription funds received during the three months ended March 31, 2021 related to 49,546,154 common shares that were issued subsequent to quarter-end (Note 12).
- (vi) In March 2021, the Company issued 667,000 shares upon a warrant exercise (Note 12)

As at March 31, 2021 and December 31, 2020, there were 63,575,413 common shares held in escrow.

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14. Warrant reserve

	Number of warrants issued	Amount
Balance, January 1, 2021	250,000	\$ 1,079
Warrants issued	9,750,129	203,405
Balance, March 31, 2021	10,000,129	\$ 204,484

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. For the three months ended March 31, 2021, the Company issued 2,666,666 warrants as a severance payment. The Company issued 5% or 3,778,619 warrants to certain eligible finders associated with its first non-brokered private placement in January 2021 ("Finder's Warrants"). Each finder's warrant entitles the holder to purchase one common share at an exercise price equal to C\$0.06 per common share at any time up to 24 months following closing. In addition, the Company issued 3,304,844 finders warrants associated with its second non-brokered private placement that closed in March 2021. Each finder's warrant entitles the holder to purchase one common share at an exercise price equal to C\$0.10 per common share at any time up to 24 months following closing.

The warrants were valued using the following assumptions at March 31, 2021:

	March 31, 2021
Expected life	2 years
Risk-free interest rate	0.16% - 0.28%
Dividend yield	0.00%
Expected volatility	107% - 121%
Expected forfeiture rate	0%

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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, employees, and consultants.

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 not be 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. Most options vest evenly over 3 years and have an expiry period of 5-10 years from the grant date. The remaining life of options outstanding ranges from 1.6 years to 9.4 years.

Total number of options at January 1, 2021	70,704,188
Options granted at \$0.065 Canadian dollars	39,900,000
Options granted at \$0.06 Canadian dollars	300,000
Options expired	(1,513,906)
Total number of options at March 31, 2021	109,390,282
Number of exercisable options issued in Canadian dollars	46,645,966
Number of exercisable options issued in U.S. dollars	10,000
Weighted average exercise price of options at March 31, 2021 in U.S. dollars	\$ 0.19

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

	March 31, 2021
Expected life	3 years
Risk-free interest rate	0.23%
Dividend yield	0.00%
Expected volatility	106.9%
Expected forfeiture rate	0.00%

During the three months ended March 31, 2021 and 2020, \$69,050 and \$129,579, respectively, was included in share-based compensation expense in the consolidated statement of operations.

In the quarter ended March 31, 2021, the Company issued 39,900,000 stock options to employees and directors with an exercise of C\$0.065 and 300,000 stock options to employees with an exercise of C\$0.06.

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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, 2021 and 2020 includes the following expenses:

	For the three months ended March 31,	
	2021	2020
Salaries, commissions, bonuses and benefits	\$ 109,154	\$ 270,911
Consulting fees	88,720	183,517
Termination benefits	-	30,779
Stock compensation, including warrants and shares	30,671	124,184
	\$ 228,545	\$ 609,391

In addition, the Company issued the following stock options to executive management and directors in the three months ended March 31, 2021:

Date	Title	Shares	Exercise Price (C\$)
February 2021	CFO	4,000,000	\$ 0.065
February 2021	Directors	20,000,000	\$ 0.065
March 2021	Directors	6,000,000	\$ 0.065

In addition to the amounts above, the Company compensated certain directors and officers in conjunction with a non-brokered private placement offering in January 2021 (Note 13). The directors and officers were issued units comprised of one common share and one common share purchase warrant at a deemed issue price of C\$0.05 in satisfaction of unpaid fiscal 2020 compensation totaling C\$404,528. These amounts were accounted for in equity reserves as at December 31, 2020.

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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.

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

BMF Washington, LLC and Peter Saladino

As disclosed in the December 31, 2020 consolidated financial statements, the Company filed a lawsuit against BMF Washington LLC ("BMF") and Peter Saladino ("Saladino") on January 21, 2020, in Multnomah County (Oregon) Circuit Court, Case No. 20CV03528, seeking to recover \$6,916,580 in damages. The Company asserted two claims for breach of contract, arising out of the parties' equipment leasing and intellectual property licensing agreements, seeking damages of \$676,580 and \$2,080,000, respectively, with alternative claims against both BMF and Saladino (collectively, the "Defendants") for unjust enrichment related to their improper use of the Company's equipment and intellectual property. The Company is also asserting claims against the Defendants for misappropriation of trade secrets under Oregon and Washington law, seeking additional damages of \$4,160,000.

In May 2021, the Company signed a settlement agreement (the "Settlement Agreement") with Peter Saladino and settled the lawsuit the Company filed against him. Pursuant to the terms of the Settlement Agreement, Saladino waived his right to pursue counterclaims against the Company stemming from the transaction. The Company and Saladino have also released all claims against each other and mutually agreed that neither party would be pay any monetary consideration to the other. The case has now been dismissed with prejudice.

Sparks, Nevada

On August 11, 2020, the Company received a demand letter from the attorneys for the landlord of the premises that the Company had been leasing in Sparks, Nevada (the "Premises").

On October 6, 2020, the Landlord filed a Summons and Complaint in the Second Judicial District Court for Nevada, Washoe County, alleging breach of contract, breach of covenant of good faith and fair dealing and unjust enrichment. The Landlord seeks damages in excess of \$15,000 in an amount to be proved at trial and attorneys' fees. On April 8, 2021, a Discovery Planning Dispute Conference was filed with the Court. The Company and its Nevada counsel continue to attempt to settle this case.

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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, other receivables, notes receivable, accounts payable, accrued liabilities, notes payable, and interest payable approximate their fair values because of the short-term maturities of these financial instruments. Subsequent to their modification in February 2021, the convertible debentures are carried at amortized cost as it approximates fair value.

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, 2020	Category	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets					
Biological assets	FVTPL	-	-	455,045	455,045
Financial Liabilities					
Convertible debentures	FVTPL	-	-	5,575,273	5,575,273

March 31, 2021	Category	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets					
Biological assets	FVTPL	-	-	511,277	511,277
Financial Liabilities					
Warrant liability	FVTPL	-	-	5,154,149	5,154,149

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.

Biological assets are carried at fair value based on the assumptions disclosed in Note 6.

The convertible debentures prior to modification in January 2021 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 approximately 106% at March 31, 2021.

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19. Financial instruments and risk management (continued)

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, 2021 and December 31, 2020.

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 \$116,516 as at March 31, 2021 (December 31, 2020 - \$185,497).

(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, 2021						
Trade and other payables	\$ 3,652,595	\$ 3,652,595	\$ 3,652,595	\$ -	\$ -	\$ -
Lease liabilities	5,047,544	6,518,999	1,226,930	2,386,573	2,046,901	858,595
Other loans and borrowings	120,104	120,104	120,104	-	-	-
Convertible debt	2,805,895	4,044,735	-	4,044,735	-	-
Consideration payable	1,872,654	2,648,210	-	-	-	2,648,210
Total	\$ 13,498,792	\$ 16,984,643	\$ 4,999,629	\$ 6,431,308	\$ 2,046,901	\$ 3,506,805

(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.

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19. Financial instruments and risk management (continued)

The following is an analysis of U.S. dollar equivalent of financial assets and liabilities that are denominated in Canadian dollars at March 31, 2021:

	March 31, 2021
Cash	\$ 8,912,335
Notes receivable	919,488
Total assets	\$ 9,831,823
Trade and other payables	274,320
Convertible debt	2,805,895
Total liabilities	\$ 3,080,215

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20. Segment Information

The Company defines its major operating segments as Oregon and Other operations, which includes Corporate and contract manufacturing arrangements in California, Nevada and Washington. The Oregon segment is comprised of wholesale and retail operations. Other operations include markets which are immaterial and corporate activities.

For the three months ended			
March 31, 2021	Oregon	Other	Consolidated
Product sales	\$ 4,934,323	\$ 98,991	\$ 5,033,314
Royalty and other revenue	430,441	31,700	462,141
Total Revenue	5,364,764	130,691	5,495,455
Inventory expensed to cost of sales	3,158,836	22,089	3,180,925
Gross margin, excluding fair value items	2,205,928	108,602	2,314,530
Fair value changes in biological assets included in inventory sold	(84,329)	-	(84,329)
Gain on changes in fair value of biological assets	(81,763)	-	(81,763)
Gross profit	\$ 2,372,020	\$ 108,602	\$ 2,480,622

As at March 31, 2021

Assets	\$ 10,966,376	\$ 26,905,600	\$ 37,871,976
Liabilities	\$ 6,348,073	\$ 18,724,285	\$ 25,072,358

For the three months ended			
March 31, 2020	Oregon	Other	Consolidated
Product sales	\$ 3,940,110	\$ 299,472	\$ 4,239,582
Royalty and other revenue	430,722	-	430,722
Total Revenue	4,370,832	299,472	4,670,304
Inventory expensed to cost of sales	2,404,977	559,215	2,964,192
Gross margin, excluding fair value items	1,965,855	(259,743)	1,706,112
Gain on changes in fair value of biological assets	(20,714)	-	(20,714)
Gross profit	\$ 1,965,855	\$ (259,743)	\$ 1,726,826

As at December 31, 2020

Assets	\$ 10,415,841	\$ 17,602,170	\$ 28,018,011
Liabilities	\$ 6,361,156	\$ 16,184,657	\$ 22,545,813

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21. Subsequent Events

On April 8, 2021 the Company announced its acquisition of an 80% interest in Fifth & Root Inc. a CBD skincare line for total consideration of \$1,687,500 consisting of \$250,000 in cash and up to 30,666,666 common shares of GLH common shares.

On May 19, 2021, the Company closed on its purchase of 100% ownership in SMS Ventures, LLC, dba Homegrown Oregon (“Homegrown”), a chain of five retail dispensaries located in Portland, Salem and Albany, Oregon. Total consideration was approximately \$9.75 million, consisting of \$6 million in cash at closing, approximately 37 million common shares of the Company priced at a price of C\$0.065, plus a secured promissory note for US\$1.75 million carrying interest of 8% interest, payable over 48 months with interest only for the first year, with monthly principal payments to start upon the one-year anniversary of closing.

Effective May 25, 2021 the Company’s previously announced name change and share consolidation will be effective. The Company will be named “Chalice Brands Ltd.” and the Company’s common shares have been consolidated on a basis of 23 pre-consolidation shares to 1 post-consolidation share. At beginning of trading on May 25, 2021 the Company will reflect 59,081,260 common shares outstanding.