

**Liberty Leaf Holdings Ltd.**

**Consolidated Financial Statements**

December 31, 2019 and 2018

(Expressed in Canadian Dollars)

Liberty Leaf Holdings Ltd.

December 31, 2019 and 2018

<b><u>INDEX</u></b>	<b><u>Page</u></b>
Independent Auditors' Report to the Shareholders	1-3
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position	4
Consolidated Statements of Comprehensive Loss	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 29



## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF LIBERTY LEAF HOLDINGS LTD.

#### *Opinion*

We have audited the consolidated financial statements of Liberty Leaf Holdings Ltd. (the "Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

#### *Material Uncertainty Related to Going Concern*

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$1,398,087 during the year ended December 31, 2019 and, as of that date, the Company's has a deficit of \$27,681,468. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### *Other Information*

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management's Discussion & Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

*Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Herve Leong-Chung.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
June 5, 2020

## Liberty Leaf Holdings Ltd.

### Consolidated Statements of Financial Position

December 31, 2019 and 2018

(Expressed in Canadian Dollars)

	2019	2018
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 87,005	\$ 402,393
Short term investments (note 9)	760,411	1,594,388
GST receivable	6,576	67,668
Inventory	18,108	-
Prepaid expenses and deposits	8,220	91,455
	880,320	2,155,904
<b>Property and Equipment</b> (note 6)	29,934	39,732
<b>Investment in Associate</b> (note 8)	5,674,681	5,355,060
	\$ 6,584,935	\$ 7,550,696
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (note 10)	\$ 325,070	\$ 308,954
	325,070	308,954
<b>Shareholders' Equity</b>		
<b>Share Capital</b> (note 11)	27,494,138	27,258,306
<b>Reserves</b> (note 11)	6,447,195	6,266,817
<b>Deficit</b>	(27,681,468)	(26,283,381)
	6,259,865	7,241,742
	\$ 6,584,935	\$ 7,550,696

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

*"William Rascan"*

..... Director

William Rascan

*"Steven Feldman"*

..... Director

Steven Feldman

## Liberty Leaf Holdings Ltd.

Consolidated Statements of Comprehensive Loss  
 Years Ended December 31, 2019 and 2018  
 (Expressed in Canadian Dollars)

	2019	2018
<b>Revenue</b>	\$ 7,192	\$ -
<b>Cost of Goods Sold</b>	(5,566)	-
<b>Gross Profit</b>	1,626	-
<b>Expenses</b>		
Accounting, legal and audit (note 10)	131,296	76,828
Amortization (note 6)	9,798	8,647
Consulting fees (note 10)	370,118	706,112
Management fees (note 10)	188,000	196,500
Office and general	112,167	177,702
Rent	20,000	142,414
Share-based payments (note 10)	266,210	1,982,250
Shareholder communications and investor relations (note 10)	63,345	200,896
Research and development costs (note 16)	-	22,109
Transfer agent and filing fees	62,846	47,971
	(1,223,780)	(3,561,429)
<b>Loss before Other Items</b>	(1,222,154)	(3,561,429)
<b>Other Items</b>		
Gain on settlement of debt (note 11)	-	10,247
(Loss) gain on short term investments (note 9)	(27,725)	98,424
Interest Income	20,750	14,388
Equity loss from associate (note 8)	(93,958)	(109,779)
Write off of deposit	(75,000)	-
Loss on settlement of prepaid	-	(15,693)
Write off of accounts receivable	-	(9,257)
<b>Net Loss and Comprehensive Loss for the Year</b>	\$ (1,398,087)	\$ (3,573,099)
<b>Basic and Diluted Loss Per Share</b>	\$ (0.01)	\$ (0.03)
<b>Weighted Average Number of Common Shares Outstanding – Basic and Diluted</b>	127,979,703	118,371,560

The accompanying notes are an integral part of these consolidated financial statements.

## Liberty Leaf Holdings Ltd.

### Consolidated Statements of Changes in Shareholders' Equity Years ended December 31, 2019 and 2018 (Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Reserves	Share Subscriptions	Deficit	Total
<b>Balance, December 31, 2017</b>	<b>106,546,547</b>	<b>\$ 21,070,550</b>	<b>\$ 4,704,354</b>	<b>\$ 1,100</b>	<b>\$ (22,710,282)</b>	<b>\$ 3,065,722</b>
Private placements	5,259,485	2,103,794	-	-	-	2,103,794
Share issue costs	-	(310,044)	-	-	-	(310,044)
Shares issued for investment in associate (note 8)	3,000,000	2,670,000	-	-	-	2,670,000
Shares issued on the exercise of warrants	9,939,677	904,168	-	-	-	904,168
Fair value of warrants exercised	-	125,096	(125,096)	-	-	-
Shares issued on the exercise of share options	2,413,225	356,688	-	(1,100)	-	355,588
Fair value of share options exercised	-	294,691	(294,691)	-	-	-
Shares issued for settlement of debt (note 11)	117,198	43,363	-	-	-	43,363
Share options granted	-	-	1,982,250	-	-	1,982,250
Net loss for the year	-	-	-	-	(3,573,099)	(3,573,099)
<b>Balance, December 31, 2018</b>	<b>127,276,132</b>	<b>27,258,306</b>	<b>6,266,817</b>	<b>-</b>	<b>(26,283,381)</b>	<b>7,241,742</b>
Shares issued on the exercise of share options	1,250,000	150,000	-	-	-	150,000
Fair value of share options exercised	-	85,832	(85,832)	-	-	-
Share options granted	-	-	266,210	-	-	266,210
Net loss for the year	-	-	-	-	(1,398,087)	(1,398,087)
<b>Balance, December 31, 2019</b>	<b>128,526,132</b>	<b>\$ 27,494,138</b>	<b>\$ 6,447,195</b>	<b>\$ -</b>	<b>(27,681,468)</b>	<b>\$ 6,259,865</b>

The accompanying notes are an integral part of these consolidated financial statements.



## Liberty Leaf Holdings Ltd.

Consolidated Statements of Cash Flows  
Years Ended December 31, 2019 and 2018  
(Expressed in Canadian Dollars)

	2019	2018
<b>Operating Activities</b>		
Net loss for the year	\$ (1,398,087)	\$ (3,573,099)
Items not involving cash		
Amortization	9,798	8,647
Share-based payments	266,210	1,982,250
Write-off of deposit	75,000	-
Loss (gain) on short term investments	27,725	(98,424)
Gain on settlement of debt	-	(10,247)
Interest accrued on short term investments	(20,750)	(14,388)
Equity loss from associate (note 8)	93,958	109,779
Changes in non-cash working capital		
GST receivable	61,092	(14,218)
Inventory	(18,108)	-
Prepaid expenses	8,235	31,163
Accounts payable and accrued liabilities	16,116	203,399
<b>Cash Used in Operating Activities</b>	<b>(878,811)</b>	<b>(1,375,138)</b>
<b>Investing Activities</b>		
Advances to associate (note 8)	(413,579)	(964,839)
Short term investments (note 9)	800,000	(1,550,000)
Proceeds on sale of short term investments	27,002	68,424
Purchase of equipment (note 6)	-	(40,625)
<b>Cash Provided by (Used in) Investing Activities</b>	<b>413,423</b>	<b>(2,487,040)</b>
<b>Financing Activities</b>		
Proceeds from exercise of warrants	-	904,168
Proceeds from exercise of share options	150,000	355,588
Shares issued for cash, net of issue costs	-	1,793,750
<b>Cash Provided by Financing Activities</b>	<b>150,000</b>	<b>3,053,506</b>
<b>Outflow of Cash</b>	<b>(315,388)</b>	<b>(808,672)</b>
<b>Cash, Beginning of the Year</b>	<b>402,393</b>	<b>1,211,065</b>
<b>Cash, End of the Year</b>	<b>\$ 87,005</b>	<b>\$ 402,393</b>

Supplemental Disclosures with Respect to Cash Flows (note 12)

The accompanying notes are an integral part of these consolidated financial statements.

## **Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **1. NATURE OF OPERATIONS**

Liberty Leaf Holdings Ltd. (the "Company") is a Vancouver, British Columbia, based company incorporated in the province of British Columbia. The Company is listed on the Canadian Securities Exchange (the "Exchange") under the symbol "LIB".

The Company is in the development phase to become a licensed producer of medical marijuana as regulated by the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). On December 6, 2017, the Company signed an agreement to acquire shares of Just Kush Enterprises Ltd. ("Just Kush") (note 8).

The principal address of the Company is located at 700 – 838 West Hastings Street, Vancouver, British Columbia, Canada, V6C 0A6.

### **2. GOING CONCERN**

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several adverse conditions cast significant doubt on the validity of this assumption. The Company incurred an operating loss during the year ended December 31, 2019 of \$1,398,087 (2018 - \$3,573,099) and as at that date has a deficit of \$27,681,468 (2018 - \$26,283,381), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to fund its investment in associate (note 8) or enter into agreements with other cannabis-related businesses. Management is actively engaged in the review and due diligence on opportunities of merit in the cannabis sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. Such adjustments could be material.

### **3. BASIS OF PRESENTATION**

#### **a) Statement of compliance**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

#### **b) Basis of measurement**

These consolidated financial statements have been prepared using the historical cost basis, except for certain financial instruments, which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### **c) Principles of consolidation**

The consolidated financial statements of the Company consolidate the accounts of the Company and its wholly owned subsidiaries, North Road, a British Columbia, Canada company and Signature Cannabis Retail, a British Columbia, Canada company. All intercompany transactions, balances and unrealized gains and losses are eliminated on consolidation.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 3. BASIS OF PRESENTATION (Continued)

d) Approval of the consolidated financial statements

The consolidated financial statements of the Company for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors on June 5, 2020.

e) Use of estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is as follows:

- Control

Management consolidates all subsidiaries and entities which it is determined that the Company controls. Control is evaluated on the ability of the Company to direct the activities of the subsidiary or entity to derive variable returns and management uses judgment in determining whether control exists. Judgment is exercised in the evaluation of the variable returns and in determining the extent to which the Company has the ability to exercise its power to generate variable returns.

- Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenses, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

- Significant influence

Where the Company holds the largest shareholding in an investment and has the power to exercise significant influence through common officers and board members, such an investment is treated as an associate. The Company has determined it can exercise significant influence over Just Kush (note 8).

- Treatment of license costs

License costs are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, which management assesses based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any license costs as at December 31, 2019 and 2018.

## **Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **3. BASIS OF PRESENTATION (Continued)**

#### e) Use of estimates and judgments (Continued)

The key estimates applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The inputs used in assessing the recoverable amount of deferred tax assets;
- Assumptions used as inputs to calculate share-based payments; and
- Fair value of equity issuances for non-cash consideration.

Actual results could differ from those estimates. Key judgments and estimates made by management with respect to those areas noted previously have been disclosed in the notes to the consolidated financial statements, as appropriate.

### **4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies have been applied consistently throughout the year to the Company for purposes of these consolidated financial statements.

#### a) Foreign currency translation

The presentation and functional currency of the Company and its subsidiary is the Canadian dollar, as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined and are not subsequently restated.

All gains and losses on translation of foreign currency balances are included in profit or loss.

#### b) Property and equipment

##### *i) Recognition and measurement*

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### b) Property and equipment (Continued)

##### ii) *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

##### iii) *Amortization*

The amortization rates applicable to each category of property and equipment are as follows:

<b>Class of equipment</b>	<b>Amortization rate</b>
Computer equipment	55% declining-balance
Office equipment	20% declining-balance

#### c) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively.

#### d) Share capital

Proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share of the Company upon exercise, with the corresponding balance in reserves transferred to share capital. Share capital issued for non-monetary consideration is valued at the closing market price at the date of issuance. The proceeds from the issuance of units are allocated between common shares and warrants based on the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the warrants reserve.

#### e) Financial instruments

##### Financial assets

##### (i) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Financial instruments (Continued)

##### (ii) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

##### *Financial assets measured at amortized cost*

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

##### *Financial assets measured at fair value through other comprehensive income ("FVTOCI")*

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

##### *Financial assets measured at fair value through profit or loss ("FVTPL")*

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

##### (iii) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in profit or loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Financial instruments (Continued)

##### Financial liabilities

##### (i) Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

##### (ii) Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

##### *Financial liabilities measured at amortized cost*

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

##### *Financial liabilities measured at fair value through profit or loss*

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

##### (iii) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of comprehensive loss.

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

##### Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

##### Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

## **Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### e) Financial instruments (Continued)

- |          |  |
|----------|--|
| 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 assets or liabilities that are not based on observable market data.   |

#### f) Share-based payment transactions

The Company grants share options and warrants to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded vesting method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

For both employees and non-employees, the fair value of share-based payments is recognized as either an expense or as mineral property interests with a corresponding increase in option reserves. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in reserves is transferred to share capital. For those options and warrants that expire or are forfeited after vesting, the recorded value remains in reserves.

#### g) Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the consolidated statement of comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.



## **Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### h) Earnings (loss) per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

#### i) Revenue recognition

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Revenue from sale of goods, as presented in the consolidated statement of comprehensive loss, represents revenue from the sale of goods less expected price discounts, and allowances for customer returns. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when the Company has met its contractual obligation and control is transferred to the customer. Indicators of a transfer of control include an unconditional obligation to pay, legal title, physical possession, transfer of risk and rewards and customer acceptance. This generally occurs when the goods are delivered to the customer.

#### i) Inventory

The Company defines inventory as finished goods for resale. Products for resale are initially recognized at cost and subsequently valued at the lower of cost and net realizable value ("NRV"). The Company reviews these types of inventory for obsolescence, redundancy and slow turnover to ensure that they are written-down and reflected at NRV.

The Company uses judgment in determining the NRV of inventory. When assessing NRV, the Company considers the impact of price fluctuation and inventory damage. If carrying value exceeds the net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist, up to its initial cost.

#### j) New standard adopted

##### *IFRS 16 Leases*

IFRS 16, Leases ("IFRS 16") was issued by the IASB on January 13, 2016, and replaced IAS 17, Leases. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 requires a single, on-balance sheet accounting model that is similar to current finance lease accounting. A lease liability and a right-of use asset is recognized on the statement of financial position.

The Company does not have any leases and accordingly, there was no impact to the Company's consolidated financial statements as a result of adopting this new standard.

## **Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

k) Standards, amendments and interpretations not yet effective

The Company will be required to adopt the following standards and amendments issued by the IASB as described below.

*IFRS 17 Insurance Contracts*

IFRS 17 is a new standard that requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4, Insurance Contracts, and related interpretations.

Effective for the Company's annual period beginning January 1, 2021. The Company has yet to assess the impact of IFRS 17 on its consolidated financial statements.

### **5. FINANCIAL INSTRUMENTS**

The Company classifies its financial instruments as follows:

- Cash is classified as financial asset at FVTPL;
- Short-term investments as financial assets classified as FVTPL;
- Accounts payable and accrued liabilities are classified as financial liabilities at amortized cost.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash and certain short term investments, by placing cash with major Canadian financial institutions. The Company is therefore exposed to credit risk with respect to cash of \$87,005 (2018 - \$402,393) and short-term investments of \$711,486 (2018 - \$1,514,388) as at December 31, 2019.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. As of December 31, 2019, the Company has cash and short term investments of \$847,416 (2018 - \$1,996,781) to meet contractual financial liabilities of \$325,070 (2018 - \$308,954). All of the liabilities presented as accounts payable are due within 90 days of December 31, 2019.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 5. FINANCIAL INSTRUMENTS (Continued)

#### c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return on capital.

As at December 31, 2019, the Company is exposed to market risk with respect to short term investments of \$48,925 (2018 - \$80,000) representing the Company's investment in common shares of Sire Bioscience Inc. ("SIRE", formerly Blox Labs Inc. ("BLOX")).

### 6. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Total
Cost			
Balance, December 31, 2017	\$ 13,396	\$ 2,032	\$ 15,428
Additions	2,777	37,848	40,625
Balance, December 31, 2018	\$ 16,173	\$ 39,880	\$ 56,053
Additions	-	-	-
Balance, December 31, 2019	\$ 16,173	\$ 39,880	\$ 56,053
Accumulated Amortization			
Balance, December 31, 2017	\$ 6,117	\$ 1,557	\$ 7,674
Amortization	4,767	3,880	8,647
Balance, December 31, 2018	\$ 10,884	\$ 5,437	\$ 16,321
Amortization	2,909	6,889	9,798
Balance, December 31, 2019	\$ 13,793	\$ 12,326	\$ 26,119
Net Book Value, December 31, 2018	\$ 5,289	\$ 34,443	\$ 39,732
Net Book Value, December 31, 2019	\$ 2,380	\$ 27,554	\$ 29,934

### 7. NORTH ROAD VENTURES LTD.

On April 28, 2016, as amended July 4, 2016 and September 9, 2016, the Company entered into an agreement to purchase all of the shares of North Road, a company which has submitted a ACMPR application to Health Canada.

Under the terms of the agreement, as the ACMPR license application progresses the Company will pay to the shareholders of North Road compensation for meeting certain milestones described in cash or the equivalent dollar value of common shares of the Company as follows: \$150,000 upon North Road completing the "Security Clearance" phase; \$350,000 upon North Road completing the "Pre-license Inspection" phase; and \$1,000,000 upon North Road receiving an approved ACMPR license. As at December 31, 2019 North Road has not achieved any additional milestones and has not received approval of its ACMPR license.

## **Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **8. INVESTMENT IN ASSOCIATE**

On December 6, 2017, the Company signed an agreement to acquire shares of Just Kush Enterprises Ltd. (“Just Kush”), a private British Columbia company with an in process ACMPR license.

Pursuant to the agreement, the Company has advanced payment to Just Kush and the amount pertains to the build out expenditures incurred at the Just Kush facility to further Just Kush’s ACMPR application. These amounts have been paid by the Company and will be reimbursed to the Company by Just Kush.

The capital of Just Kush consists of 100 Class A voting shares and 100 class B common shares. The Company acquired 45 Class A voting shares and 24 Class B common shares of Just Kush, representing approximately 34.5% equity interest in Just Kush.

As consideration, the Company paid \$150,000 and issued 2,000,000 common shares of the Company upon execution of the agreement at a fair value based on market prices of \$840,000. In addition, the Company may acquire a further 36 Class B common shares pursuant to the milestones below. The Company issued a further 3,000,000 common shares at a fair value based on market prices of \$2,670,000 on January 15, 2018 to be held in escrow and to be released upon the following milestones:

- i. Within two days of receipt of written notice from Just Kush indicating that Just Kush passed the Security Clearance pursuant to the ACMPR application, the Company shall issue 1,000,000 common shares of the Company to shareholders of Just Kush in exchange for 12 Class B shares.
- ii. Within two days of receipt of written notice from Just Kush indicating that Just Kush received its License to Produce pursuant to the ACMPR application, the Company shall issue 500,000 common shares of the Company to shareholders of Just Kush in exchange for 6 Class B shares.
- iii. Within two days of receipt of written notice from Just Kush indicating that Just Kush completed its Introduction Inspection pursuant to the ACMPR application, the Company shall issue 500,000 common shares of the Company to shareholders of Just Kush in exchange for 6 Class B shares.
- iv. Within two days of receipt of written notice from Just Kush indicating that Just Kush completed its Pre-Sales Inspection pursuant to the ACMPR application, the Company shall issue 500,000 common shares of the Company to shareholders of Just Kush in exchange for 6 Class B shares.
- v. Within two days of receipt of written notice from Just Kush indicating that Just Kush received its License to Sell, pursuant to the ACMPR application, the Company shall pay \$600,000 to the shareholders of Just Kush, and issue 500,000 common shares of the Company to shareholders of Just Kush. The \$600,000 is payable in cash and/or issuance of shares of the Company (based on a 20-day VWAP at the option of Company), in exchange for 6 Class B shares of Just Kush.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### 8. INVESTMENT IN ASSOCIATE (Continued)

As of December 31, 2019, Just Kush had met milestones i – iv, however, management and Just Kush are currently clarifying the terms for the milestone payments of the original share purchase agreement to better reflect the new regulations that have replaced the ACMPR. The total consideration to be paid under the share purchase agreement has not changed. Accordingly no additional shares have been issued by either party. As such, the Company's investment in associate remains at 34.5% equity interest as at December 31, 2019.

In relation to this transaction, the Company paid a finder's fee of 1,000,000 common shares, which were valued at \$420,000 and compensation shares of 1,000,000 common shares, which were valued at \$420,000.

The Company has determined it has significant influence over Just Kush and accounts for its investment using the equity method. The following is a summary of the investment in associate:

	2019	2018
Shares issued	\$ 4,350,000	\$ 4,350,000
Cash consideration	\$ 150,000	\$ 150,000
Advances	\$ 1,378,418	\$ 964,839
Equity loss from associate	\$ (203,737)	\$ (109,779)
Investment in associate	\$ 5,674,681	\$ 5,355,060

Summarized financial information for Just Kush is as follows:

	2019	2018
Current assets	\$ 26,839	\$ 112,227
Non-current assets	\$ 1,146,381	\$ 937,821
Current liabilities	\$ 71,185	\$ 59,291
Non-current liabilities	\$ 2,009,886	\$ 1,626,257
Net loss	\$ 272,341	\$ 318,200

### 9. SHORT TERM INVESTMENTS

On March 13, 2018, the Company invested \$1,500,000 in a redeemable short-term investment certificate with a maturity date of February 4, 2019. On February 4, 2019, the \$1,500,000 redeemable short-term investment certificate was renewed with a maturity date of February 4, 2020. During the year ended December 31, 2019, the Company redeemed \$800,000 of the short-term investment certificate. The short-term investment earned interest at 1.2% per annum until February 2019 when the interest rate was increased to 2.0%. The investment is redeemable at any time before the maturity date. Interest earned on the investment is included in gain on short term investments.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 9. SHORT TERM INVESTMENTS (Continued)

On June 20, 2018, the Company purchased 666,667 common shares of BLOX at \$0.075 per share. The investment was made pursuant to the terms of an agreement signed December 9, 2017, where the Company agreed to purchase a minimum of \$50,000 in shares of BLOX for investment purposes, when BLOX undertook its next equity financing. The investment is marked to market each reporting period and the gain or loss is reflected in gain/loss on short term investments in profit and loss. Common shares of BLOX underwent a three for one stock split on June 28, 2018. In September 2019, BLOX completed a change of business and name change to Sire Bioscience Inc. ("SIRE"). During the year ended December 31, 2019 the Company sold 43,000 SIRE shares for \$3,350 in proceeds (2018 - \$68,424). As at December 31, 2019, these 1,957,000 shares were valued at \$0.025 per share for a market value of \$48,925 (2018 - \$80,000), with a corresponding loss recognized during the period of \$27,725 (2018 – gain of \$30,000).

### 10. RELATED PARTY TRANSACTIONS

These amounts of key management compensation and other related party transactions are included in the amounts shown on the consolidated statements of comprehensive loss for the years ended December 31, 2019 and 2018:

	2019	2018
Consulting fees	\$ 45,000	\$ 29,000
Management fees	\$ 188,000	\$ 196,500
Accounting fees	\$ 9,575	\$ 7,000
Shareholder communications	\$ 48,000	\$ 56,500
Share-based payments	\$ 101,149	\$ 922,518

These transactions were in the normal course of operations. The Company engaged the Chief Executive Officer ("CEO"), to provide management services to the Company in consideration of \$150,000 during the year ended December 31, 2019 (2018 - \$170,000). The Company engaged the CFO to provide management services in consideration of \$38,000 (2018 - \$26,500), and separately paid \$9,575 for accounting services during the year ended December 31, 2019 (2018 - \$7,000). The Company engaged a director to provide shareholder communication services for consideration of \$48,000 during the year ended December 31, 2019 (2018 - \$56,500). The Company engaged a director to provide consulting services for consideration of \$27,500 during the year ended December 31, 2019 (2018 – \$28,000). The Company engaged the son of the CEO to provide consulting services for consideration of \$17,500 during the year ended December 31, 2019 (2018 – \$nil). Incentive stock options were granted to key management during the year ended December 31, 2019 with a fair value of \$101,149 (2018 - \$922,518) estimated using the Black Scholes option pricing model.

As at December 31, 2019, accounts payable and accrued liabilities included \$35,402 (2018 - \$19,375) due to officers and directors or companies controlled by current or former officers and directors. The amounts due are non-interest-bearing, unsecured and without stated terms of repayment.

## **Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **11. SHARE CAPITAL**

#### **Authorized share capital**

Unlimited number of common shares without par value.

#### **Issued share capital**

##### *During the year ended December 31, 2019*

During the year ended December 31, 2019, the Company issued 1,250,000 common shares of the Company for gross proceeds of \$150,000 on the exercise of 1,250,000 stock options. The Company transferred \$85,832 from reserves to share capital in conjunction with the exercises.

##### *During the year ended December 31, 2018*

On January 22, 2018, the Company closed a non-brokered private placement and issued 5,000,000 units at a price of \$0.40 per unit for gross proceeds of \$2,000,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable by the holder to acquire one additional common share for a period of two years from issuance at an exercise price of \$0.60. The Company paid finder's fees of \$206,250 and issued 259,485 finder's units with the same terms as the private placement units with a fair value of \$103,794. The Company allocated all of the proceeds to the common shares and \$nil to the warrants based on the residual value method.

On April 5, 2018, the Company issued 117,198 units at a fair value of \$0.37 per unit to settle \$46,879 of debt due to an unrelated party. Each unit consists of one common share of the Company and one-half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at a price of \$0.60 per share for a period of two years from the closing. The Company recognized a gain on settlement of debt of \$3,516 to reflect the difference between the amount owing and the share price on the issuance date.

During the year ended December 31, 2018, the Company issued 9,939,677 common shares of the Company for gross proceeds of \$904,168 on the exercise of 9,939,677 share purchase warrants. The Company transferred \$125,096 from reserves to share capital in conjunction with the exercises. The Company also issued 2,413,225 common shares of the Company for gross proceeds of \$356,688 on the exercise of 2,413,225 stock options. \$1,100 of the proceeds were received prior to December 31, 2017. The Company transferred \$294,691 from reserves to share capital in conjunction with the exercises.

**Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

**11. SHARE CAPITAL (Continued)****Warrants**

Warrant transactions and the number of warrants outstanding are summarized as follows:

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	Number of	Weighted	Number of	Weighted
	Warrants	Average Exercise	Warrants	Average Exercise
		Price		Price
Outstanding, beginning of year	3,304,342	\$ 0.53	10,605,677	\$ 0.10
Issued	-	-	2,688,342	0.60
Exercised	-	-	(9,939,677)	0.09
Expired	(616,000)	0.20	(50,000)	0.08
Outstanding, end of year	2,688,342	\$ 0.60	3,304,342	\$ 0.53



## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 11. SHARE CAPITAL (Continued)

#### Warrants (Continued)

The following warrants are outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	December 31, 2019	December 31, 2018
May 24, 2019	-	\$ 0.20	-	616,000
January 22, 2020*	0.06	\$ 0.60	2,629,743	2,629,743
April 5, 2020*	0.26	\$ 0.60	58,599	58,599
	0.06	\$ 0.60	2,688,342	3,304,342

\*expired unexercised subsequently

#### Share options

The Company has adopted a share option plan pursuant to which the Board of Directors of the Company may, from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares at the time of grant and the options are exercisable for a period not to exceed 10 years from the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised within 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, employment or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 11. SHARE CAPITAL (Continued)

#### Share options (Continued)

Options granted to directors, employees and consultants vest immediately. Options granted to consultants engaged in investor relations activities will vest in stages over a minimum period of 12 months with no more than one-quarter of the options vesting in any three-month period.

Share option transactions and the number of share options outstanding are summarized as follows:

	December 31, 2019		December 31, 2018	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
		Exercise		Exercise
		Price		Price
Outstanding, beginning of year	7,750,000	\$ 0.35	5,090,000	\$ 0.17
Granted	5,550,000	0.12	6,500,000	0.40
Exercised*	(1,250,000)	0.12	(2,413,225)	0.15
Expired	(2,500,000)	0.30	(1,426,775)	0.24
Outstanding, end of year	9,550,000	\$ 0.31	7,750,000	\$ 0.35

\* weighted average share price for options exercised during the year ended December 31, 2019 was \$0.12

#### *During the year ended December 31, 2019*

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following weighted-average assumptions: risk-free interest rate of 1.61%; expected dividend yield of zero; expected share price volatility of 108%; and expected life of 1.41 years. The Company used historical volatility to estimate the volatility of the share price. The weighted average grant date fair value of each option was \$0.06. Accordingly, \$266,210 was recognized as share-based payment expense during the year ended December 31, 2019.

#### *During the year ended December 31, 2018*

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its share options granted with the following weighted-average assumptions: risk-free interest rate of 1.92%; expected dividend yield of zero; expected share price volatility of 138%; and expected life of 1.69 years. The Company used historical volatility to estimate the volatility of the share price. The weighted average grant date fair value of each option was \$0.31. Accordingly, \$1,982,250 was recognized as share-based payment expense during the year ended December 31, 2018.

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 11. SHARE CAPITAL (Continued)

#### Share options (Continued)

The following share options are outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	December 31, 2019	December 31, 2018
January 31, 2019	-	\$ 0.69	-	300,000
February 5, 2019	-	\$ 0.52	-	100,000
March 2, 2019	-	\$ 0.44	-	125,000
March 22, 2019	-	\$ 0.49	-	50,000
May 23, 2019	-	\$ 0.30	-	100,000
July 5, 2019	-	\$ 0.10	-	750,000
July 18, 2019	-	\$ 0.25	-	150,000
August 1, 2019	-	\$ 0.11	-	250,000
August 1, 2019	-	\$ 0.245	-	575,000
September 27, 2019	-	\$ 0.22	-	500,000
November 24, 2019	-	\$ 0.21	-	250,000
October 30, 2019	-	\$ 0.16	-	100,000
January 5, 2020*	0.01	\$ 0.74	2,500,000	2,500,000
March 18, 2020*	0.21	\$ 0.15	1,500,000	-
July 12, 2020	0.53	\$ 0.105	1,250,000	-
August 1, 2020	0.59	\$ 0.245	2,000,000	2,000,000
July 12, 2021	1.53	\$ 0.105	2,300,000	-
	0.60	\$ 0.31	9,550,000	7,750,000

\*expired unexercised subsequently

### 12. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

	2019	2018
Accounts payable settled with share capital	\$ -	\$ 43,363
Subscriptions received	\$ -	\$ (1,100)
Shares issued for investment in associate	\$ -	\$ 2,670,000

### 13. SEGMENTED DISCLOSURE AND SUBSIDIARIES

The Company currently operates in one industry segment, being development of cannabis products, and in one geographic area, being Canada through the following subsidiaries.

	Country	Principal Activity	Effective interest
North Road Ventures	Canada	Cannabis product development	100%
Signature by Liberty Leaf	Canada	Cannabis product development	100%

**Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

**14. INCOME TAXES**

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 27% (2018 - 27%) to income before income taxes.

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	<b>2019</b>	<b>2018</b>
Loss before income taxes	\$ (1,398,087)	\$ (3,573,099)
Statutory income tax rate	27.00%	27.00%
Income tax benefit computed at statutory tax rate	(377,483)	(964,737)
Items not deductible for income tax purposes	97,245	548,186
Change in timing differences	41,688	(28,547)
Unrecognized benefit of deferred income tax assets	238,550	445,098
Income tax benefit	\$ -	\$ -

## Liberty Leaf Holdings Ltd.

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

### 14. INCOME TAXES (Continued)

Significant tax benefits and unused tax losses for which no deferred tax asset is recognized as of December 31 are as follows:

	2019	2018
Non-capital losses carried forward	\$ 11,955,397	\$ 10,964,187
Excess of tax value over carrying value of exploration and evaluation assets	4,422,073	4,422,073
Excess of tax value over carrying value of property and equipment	28,218	18,420
Share issue costs	274,806	191,772
Capital losses	1,430,459	1,430,459
Non-refundable income tax credit	55,009	-
Unrecognized deferred tax assets	\$ 18,165,962	\$ 17,026,911

The Company has non-capital losses of approximately \$11,955,000 available for carry-forward to reduce future years' income for income tax purposes. These losses expire as follows:

2026	\$ 92,000
2027	404,000
2028	607,000
2029	1,385,000
2030	727,000
2031	802,000
2032	839,000
2033	245,000
2034	442,000
2035	744,000
2036	1,572,000
2037	1,508,000
2038	1,588,000
2039	1,000,000
	\$ 11,955,000

### 15. CAPITAL MANAGEMENT

The Company considers its capital to be comprised of shareholders' equity.

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 attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

## **Liberty Leaf Holdings Ltd.**

Notes to the Consolidated Financial Statements

Years ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **15. CAPITAL MANAGEMENT (Continued)**

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the year ended December 31, 2019. The Company is not subject to external restrictions on its capital.

### **16. RESEARCH AND DEVELOPMENT**

On March 1, 2017, the Company entered into an agreement for services to be provided by ESEV R&D LLC. ("ESEV"), a medical research company in Israel. Under the terms of the agreement, ESEV will organize and oversee medical studies to demonstrate the efficacy of formulas and products owned or licensed by the Company for specific medical conditions in pets. The initial statement of work includes testing the efficacy of Cannabinoids (CBD) in canine osteoarthritis, which includes hip dysplasia, elbow dysplasia and stifle Degenerative Joint Disease (DJD). Costs incurred during the years ended December 31, 2018 and 2017 were expensed as research and development costs. The agreement ended during the year ended December 31, 2018 and no further costs were incurred during the year ended December 31, 2019.

### **17. SUBSEQUENT EVENTS**

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness.

To date, the COVID-19 pandemic has not had a material negative impact on the Company's results of operations. The Company's sales and distribution channels continue to operate during this period. However, the duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.