

NEWLEAF BRANDS INC.
(Formerly New Age Brands Inc.)

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019 AND 2018

(Expressed in Canadian dollars)

UNIT# 168
4300 NORTH FRASER WAY
BURNABY, BC, V5J 5J8

T: 604.318.5465
F: 778.375.4567

Adam Kim

ADAM SUNG KIM LTD.
CHARTERED PROFESSIONAL ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

To: the Shareholders of
NewLeaf Brands Inc. (formerly New Age Brands Inc.)

Opinion

I have audited the consolidated financial statements of NewLeaf Brands Inc. (formerly New Age Brands Inc.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my 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 December 31, 2018, and its consolidated financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated financial statements section of my report. I am independent of the Company in accordance with the ethical requirements that are relevant to my audit of consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material Uncertainty Related to Going Concern

I draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$3,507,737 during the year ended December 31, 2019 and, as of that date, the Company had not yet achieved profitable operations, had accumulated losses of \$47,018,818 since its inception, and expects to incur further losses in the development of its business. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Other Information

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

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I 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 IFRSs, 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.

Auditor's Responsibilities for the Audit of the Consolidated financial statements

My 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 auditor's report that includes my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's 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 Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I 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 I identify during my audit.

I also provide those charged with governance with a statement that I 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 my independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Adam Kim, CPA, CA.

"Adam Sung Kim Ltd."
Chartered Professional Accountant

UNIT# 168
4300 NORTH FRASER WAY
BURNABY, BC V5J 5J8
June 2, 2020

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

As at	December 31, 2019	December 31, 2018
	\$	\$
Current		
Cash	18,209	11,085
Loans receivable (Note 6)	12,015	216,537
Inventory	501,658	7,891
Prepaid and deposits (Note 4)	69,149	257,831
	601,031	493,344
Deposit on acquisition (Note 4)	66,170	98,070
Intangible assets (Note 5)	4,980,000	-
Right of use asset (Note 14)	69,305	-
Property, plant and equipment (Note 7)	4,551,728	4,616,376
Total assets	10,268,234	5,207,790
Current		
Accounts payable	135,805	78,731
Accrued liabilities	33,112	25,000
Promissory note (Note 9)	-	300,000
Convertible debenture (Note 9)	-	1,440,909
Lease liability (Note 14)	38,238	-
	207,155	1,844,640
Long term lease liability (Note 14)	24,143	-
Total liabilities	231,298	1,844,640
Shareholders' equity		
Shares capital (Note 10)	49,815,205	40,468,336
Accumulated other comprehensive loss	551	(55,656)
Contributed surplus	7,239,998	6,461,551
Deficit	(47,018,818)	(43,511,081)
Total shareholders' equity	10,036,936	3,363,150
Total liabilities and shareholders' equity	10,268,234	5,207,790

Nature and continuance of operations (Note 1) and **Subsequent events** (Note 16)

Approved on behalf of the Board on June 2, 2020

"Ben Martch"

Director – Ben Martch

"David Joshua Barch"

Director – David Joshua Barch

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

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	Year Ended	
	December 31, 2019 \$	December 31, 2018 \$
Sales	125,572	207,655
Rental income	151,200	-
Cost of goods sold	(94,048)	(109,822)
	182,724	97,833
Expenses		
Advertising	71,511	730,220
Amortization (Note 7 and 14)	109,079	21,763
Bank charges	12,207	11,779
Consulting	813,006	1,655,762
Directors' fees (Note 13)	520,660	150,738
Foreign exchange loss (gain)	64,865	(97,320)
Interest (Note 8 and 9)	68,310	69,947
Office and miscellaneous	134,233	311,867
Professional fees	196,446	166,775
Transfer agent, listing and filing fees	40,907	25,415
Share based payments (Note 10)	1,602,588	2,602,634
	3,633,812	5,649,580
Other income (expense)		
Management termination cost (Note 13)	-	(4,535,000)
Reserve on loan receivable (Note 6)	-	(238,735)
Write-off of property plant and equipment (Note 7)	-	(68,354)
Write-off of note payable	-	83,277
Consideration paid in excess of net assets acquired from WAK (Note 3)	-	(3,101,176)
Interest income	-	18,616
Gain(loss) on settlements of debts (Note 9)	(56,649)	37,901
Total expenses	(3,690,461)	(13,453,051)
Loss for the year	(3,507,737)	(13,355,218)
Foreign currency translation adjustment	56,207	(55,656)
Comprehensive loss for the year	(3,451,530)	(13,410,874)
Loss and comprehensive loss per share	(0.16)	(2.44)
Weighted average number of shares outstanding	22,273,251	5,470,305

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

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares	Share Capital	Contributed Surplus*	Shares to be issued	Accumulated Other Comprehensive Income (loss)	Deficit	Shareholders' Equity
Balance, December 31, 2017	3,891,502	\$ 25,367,943	\$ 5,916,788	\$ 125,000	\$ -	\$ (30,155,863)	\$ 1,253,868
Exercise of warrants	320,409	2,165,171	-	(125,000)	-	-	2,040,171
Fair value of warrants transferred	-	1,449,129	(1,449,129)	-	-	-	-
Exercise of options	238,888	752,500	-	-	-	-	752,500
Fair value of options transferred	-	608,742	(608,742)	-	-	-	-
Shares issued in acquisition of WAK	222,222	3,050,000	-	-	-	-	3,050,000
Issuance of common stock for management termination	660,000	2,227,500	-	-	-	-	2,227,500
Shares issued in acquisition of Oregon Properties	1,625,867	4,389,840	-	-	-	-	4,389,840
Finders shares issued in acquisition of Oregon Properties	81,293	219,492	-	-	-	-	219,492
Subscription receivable	-	238,019	-	-	-	-	238,019
Share based compensation	-	-	2,602,634	-	-	-	2,602,634
Foreign currency translation adjustment	-	-	-	-	(55,656)	-	(55,656)
Loss and comprehensive loss for the year	-	-	-	-	-	(13,355,218)	(13,355,218)
Balance, December 31, 2018	7,040,181	40,468,336	6,461,551	-	(55,656)	(43,511,081)	3,363,150
Private placement	2,154,580	657,147	-	-	-	-	657,147
Finder common shares	83,137	-	-	-	-	-	-
Exercise of options	345,778	826,600	-	-	-	-	826,600
Fair value of options transferred	-	824,141	(824,141)	-	-	-	-
Shares issued in acquisition of DFW	345,269	547,685	-	-	-	-	547,685
Shares issued in acquisition of Rylyfe	9,276,510	2,035,020	-	-	-	-	2,035,020
Shares issued in acquisition of Tealief	9,276,510	2,612,686	-	-	-	-	2,612,686
Shares issued for debt	4,916,240	1,843,590	-	-	-	-	1,843,590
Share based compensation	-	-	1,602,588	-	-	-	1,602,588
Foreign currency translation adjustment	-	-	-	-	56,207	-	56,207
Loss and comprehensive loss for the year	-	-	-	-	-	(3,507,737)	(3,507,737)
Balance, December 31, 2019	33,438,205	49,815,205	7,239,998	-	551	(47,018,818)	10,036,936

*Contributed surplus consists of fair values of stock options and warrants.

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

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)

For the year ended,	December 31, 2019	December 31, 2018
Cash flows used in		
Operating activities		
Loss for the year	\$ (3,507,737)	\$ (13,355,218)
Items not affecting cash:		
Amortization	109,079	21,763
Foreign exchange	-	(16,780)
Interest income	-	(7,736)
Interest expense	53,518	63,409
Management termination costs	-	3,905,000
Loss (gain) on settlement of debts	56,649	(37,901)
Shares issued for services	-	19,500
Consideration paid in excess of net assets acquired from WAK	-	3,101,176
Write-off of notes payable	-	(83,277)
Reserve on loan receivable	-	238,735
Write off of property, plant and equipment	-	68,354
Shares based payments	1,602,588	2,602,634
	(1,685,903)	(3,480,341)
Changes in non-cash working capital items:		
Inventory	(35,227)	(7,892)
Prepaid and deposits	112,273	(257,831)
Amounts receivable	(1,387)	-
Accounts payable and accrued liabilities	124,119	(238,964)
Net cash used in operating activities	(1,486,125)	(3,985,028)
Investing activities		
Transaction cost pursuant to acquisition of Oregon Properties	-	(19,728)
Deposit on acquisition	-	(98,070)
Cash transferred upon acquisition of WAK	-	6,000
Loans receivable	55,208	(140,172)
Purchase of property, plant and equipment	-	(9,126)
Net cash used in investing activities	55,208	(261,096)
Financing activities		
Loan repayment	-	(1,062,950)
Note payable	-	(8,894)
Lease liability	(50,765)	-
Proceeds from issuance of common shares	657,147	-
Subscription receivable	-	218,519
Exercise of stock options	826,600	752,500
Exercise of warrants	-	2,040,171
Net cash provided from financing activities	1,432,982	1,939,346
Foreign exchange on cash	5,059	(52,797)
Increase in cash and cash equivalents during the year	2,065	(2,306,778)
Cash and cash equivalents, beginning of the year	11,085	2,370,660
Cash and cash equivalents, end of the year	\$ 18,209	\$ 11,085
Interest paid	\$ 14,792	\$ 4,924
Non-cash Transactions:		
Shares issued for acquisitions	\$ 5,195,391	\$ 7,659,332
Shares issued for debts	\$ 1,840,590	\$ -

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

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019 AND 2018
EXPRESSED IN CANADIAN DOLLAR

1. NATURE AND CONTINUANCE OF OPERATIONS

NewLeaf Brands Inc. (formerly New Age Brands Inc.) (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on September 27, 2013, under the name 0981624 B.C. Ltd. The Company subsequently changed its name to New Age Farm Inc. on April 10, 2014, to New Age Brands Inc. on November 14, 2018 and to NewLeaf Brands Inc. on April 12, 2019. The Company listed its common shares on the Canadian Securities Exchange and began trading on August 18, 2014. The Company’s principal business is the development, market and distribution of Cannabidiol (“CBD”) products and operation of real estate and farm properties in North America.

The registered address, head office, principal address and records office of the Company are located at Suite 810 - 789 West Pender Street, Vancouver, British Columbia, V6C 1H2.

At December 31, 2019, the Company had not yet achieved profitable operations, has accumulated losses of \$47,018,818 since its inception and expects to incur further losses in the development of its business, all of which casts significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to conduct its planned business, meet its on-going levels of corporate overhead and discharge its liabilities as they come due. These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge liabilities in the normal course of business. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in these condensed interim consolidated financial statements.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

Statement of Compliance, Consolidation and Basis of Presentation

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

During the year ended December 31, 2019, the Company acquired and incorporated various subsidiaries. The Company’s structure is represented by NewLeaf Brands Inc., parent company, and the following subsidiaries:

Name	Incorporated in	Interest
New Age Farm Washington, LLC	US	100%
1176392 B.C. Ltd.	Canada	100%
Kured Latin America, LLC	US	100%
TeaLief Brands, LLC	US	100%
ReLyfe Brands, LLC	US	100%
Drink Fresh Water, LLC	US	100%

All inter-company transactions and balances have been eliminated in the condensed interim consolidated financial statement presentation. These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in the below.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

2. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

The Company adopted all of the requirements of IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking “expected loss” impairment model.

The following is the Company’s accounting policy for financial instruments under IFRS 9:

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive loss (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash and loans receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities, due to related parties, note payable and convertible debenture	Amortized cost	Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders’ equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive loss on January 1, 2018.

Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company’s own credit risk will be recognized in other comprehensive loss.

Financial assets through other comprehensive income (“FVTOCI”)

Financial assets that meet the following conditions are measured at FVTOCI:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

The Company does not currently hold any financial instruments designated as FVTOCI.

Equity instruments designated as FVTOCI

On initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings. The Company does not currently hold any equity instruments designated as FVTOCI.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of loss and comprehensive loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are 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 statements of loss and comprehensive loss.

IFRS 15, Revenue from Contracts with Customers

Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. IFRS15 is effective for reporting periods beginning on or after January 1, 2018 with early application permitted.

Revenues consist of online sales of consumable products and rental income and revenues are recognized when products are delivered.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation

The functional currency of the Company, as determined by management, is the Canadian dollar and this is also the currency in which it presents these financial statements. The Company recognizes transactions in currencies other than the Canadian dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the statement of operation and comprehensive operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Property, plant and equipment and deferred expenditures

The Company records property, plant and equipment at cost less accumulated amortization and accumulated impairment losses. It recognizes amortization to write off the cost of assets less their residual values over their useful lives, using the following methods and rates: Motor vehicle and tractor - 30% declining balance Deferred costs - Over term of lease with tenants An item of property, plant and equipment and deferred expenditures is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss. Where an item of property, plant and equipment and deferred costs consist of major components with different useful lives, the components are accounted for as separate items of property, plant and equipment and deferred expenditures. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share based Compensation

The Company operates an employee stock option plan. Share based payments to employees are measured at the fair value of the instruments issued and amortized over the relevant vesting periods. Share based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using a BlackScholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Impairment of long-lived assets

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment to determine whether any indication exists that any of those assets have suffered an impairment loss. If any such indication exists, it estimates the asset's recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where it can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate. This rate reflects current market assessments of the time value of money and also reflects the risks specific to the asset (unless these risks are reflected in the estimates of future cash flows). If the Company estimates an asset or cash-generating unit's recoverable amount to be less than its carrying amount, it reduces the carrying amount to the recoverable amount, recognizing an impairment loss immediately in profit or loss. Where an impairment loss subsequently reverses, the Company increases the asset or unit's carrying amount to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been existed if no impairment loss had been recognized in prior years. It recognizes a reversal of an impairment loss immediately in profit or loss.

IFRS 16 – Leases

On January 1, 2019, the Company adopted IFRS 16 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. The main provision of IFRS 16 is the recognition of lease assets and lease liabilities on the balance sheet by lessees for those leases that were previously classified as operating leases. Under IFRS 16, a lessee is required to do the following: (i) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet; and (ii) recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant, as the right-of-use asset is depreciated and the lease liability is accreted using the effective interest method. The new standard also requires qualitative disclosures along with specific quantitative disclosures. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include valuation of share-based payments and recognition of deferred income tax amounts.

Valuation of share-based payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

3. ASSET ACQUISITIONS

RELYFE BRAND, LLC

On August 18, 2019, the Company entered into a definitive agreement (the "Transaction") to acquire 100% of Relyfe Brand LLC ("Relyfe"). Relyfe is a CBD gel capsule Company. On August 18, 2019, the Company completed the Transaction, issued 8,433,191 common shares of the Company and 843,319 finder common shares of the Company.

The acquisition of Relyfe does not constitute a business combination because these entities do not meet the definition of a business under IFRS 3 Business Combination. As a result, under IFRS, the transaction has been measured at the fair value of equity consideration issued to acquire these entities. The purchase price was determined based on IFRS 2 – Share Based Payments:

<u>Consideration paid:</u>	
Common shares and finder common shares	\$ 2,035,020
Total consideration paid	\$ 2,035,020
<u>Total assets acquired:</u>	
Inventory	\$ 175,020
Intangible assets	\$ 1,860,000
Total assets acquired	\$ 2,035,020

Intangible assets consist of intellectual property and branding. The intangible assets are not ready for its intended use and no amortization has been recorded.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

3. ASSET ACQUISITIONS (CONTINUED)

TEALIEF BRAND, LLC

On August 18, 2019, the Company entered into a definitive agreement (the “Transaction”) to acquire 100% of Tealief Brand LLC (“Tealief”). Tealief is a tea bag Company. On August 18, 2019, the Company completed the Transaction, issued 8,433,191 common shares of the Company and 843,319 finder common shares of the Company.

The acquisition of Tealief does not constitute a business combination because these entities do not meet the definition of a business under IFRS 3 Business Combination. As a result, under IFRS, the transaction has been measured at the fair value of equity consideration issued to acquire these entities. The purchase price was determined based on IFRS 2 – Share Based Payments.

Consideration paid:	
Cash	\$ 141,215
Common shares and Finder common shares	\$ 2,612,686
Total consideration paid	\$ 2,753,901
Total assets acquired:	
Inventory	\$ 283,901
Intangible assets	\$ 2,470,000
Total assets acquired	\$ 2,753,901

Intangible assets consist of intellectual property and branding. The intangible assets are not ready for its intended use and no amortization has been recorded.

DRINK FRESH WATER, LLC

On September 30, 2018, the Company entered into a definitive agreement (the “Transaction”) to acquire 100% of Drink Fresh Water, LLC (“DFW”). On February 8, 2019, the Company completed the Transaction and issued 345,280 common shares of the Company. DFW is a CBD infused beverage company with their flagship product, a CBD infused, nano amplified alkaline water.

The acquisition of DFW does not constitute a business combination because these entities do not meet the definition of a business under IFRS 3 Business Combination. As a result, under IFRS, the transaction is being measured at the fair value of equity consideration issued to acquire these entities.

The purchase price was determined based on IFRS 2 - Share Based Payments and allocated as follows using a relative fair value approach:

Consideration paid:	
Cash	\$ 102,315
Common shares	\$ 547,685
Total consideration paid	\$ 650,000
Intangible assets	\$ 650,000

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

3. ASSET ACQUISITIONS (CONTINUED)

ACQUISITION OF 1175987 B.C. LTD.

On August 20, 2018, through the Company's wholly owned subsidiary, 1176392 B.C. Ltd., the Company acquired 100% interest in 1175987 B.C. Ltd ("Oregon Properties"). 1175987 B.C. Ltd. owned 100% interest in cave junction, Oregon and 100% interest in an established property Portland, Oregon. The Company issued 1,625,867 common shares with a fair value of \$4,389,840. The Company paid transaction costs of \$19,728 and 81,293 finder common shares with a fair value of \$219,492. Subsequently, 1176392 B.C. Ltd. and 1175987 B.C. Ltd. were amalgamated as one company under the name of 1176392 B.C. Ltd. on August 28, 2018.

The acquisition of 1175987 B.C. Ltd. does not constitute a business combination because these entities do not meet the definition of a business under IFRS 3 Business Combination. As a result, under IFRS, the transaction is being measured at the fair value of equity consideration issued to acquire these entities.

The purchase price was determined based on IFRS 2 - Share Based Payments and allocated as follows using a relative fair value approach:

Land (note 7)	\$	3,061,800
Building (note 7)		1,567,260
Net assets assumed	\$	4,629,060
Transaction costs	\$	19,728
81,293 Finder Common Shares		219,492
1,625,867 Common Shares		4,389,840
Consideration	\$	4,629,060

WE ARE KURED

In December 2017, the Company entered into a share purchase agreement to purchase 100% interest in a company, We Are Kured, LLC ("WAK"), by issuing 222,222 common shares of the Company. During the year ended December 31, 2017, the Company advanced \$64,430 (USD \$50,000) upon signing the agreement. On January 2, 2018, the Company issued 222,222 common shares of the Company to complete the acquisition.

The Company completed the acquisition of We Are Kured, LLC ("WAK") on January 2, 2018 by issuing 222,222 common shares to the principal of WAK.

The acquisition of WAK does not constitute a business combination because these entities do not meet the definition of a business under IFRS 3 *Business Combination*. As a result, under IFRS, the transaction is being measured at the fair value of equity consideration issued to acquire these entities.

The purchase price was determined based on IFRS 2 – Share Based Payments and allocated as follows:

Assets	\$	11,409
Trade and other payables		(62,585)
Net liabilities assumed	\$	(51,176)
Consideration	\$	3,050,000
Net liabilities assumed		(51,176)
Unidentifiable assets acquired	\$	3,101,176
Consideration paid in excess of net assets acquired from WAK	\$	(3,101,176)

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

4. PREPAIDS AND DEPOSITS

	December 31, 2019	December 31, 2018
	\$	\$
Consulting	53,499	237,004
Rent	15,650	20,827
	69,149	257,831

On August 9, 2019, the Company entered into a Letter Of Intent (the “LOI”) with an arm’s length party to acquire 400 acres of land in Texas, USA for US \$1,300,000. On August 12, 2019, the Company paid a non-refundable deposit of \$66,170 (US \$50,000). As at December 31, 2019, the LOI has not been completed.

On September 25, 2018, the Company entered into a definitive agreement (“Definitive Agreement”) with Drink Fresh Water, LLC (“DFW”). Pursuant to the Definitive Agreement, the Company acquired an 100% interest of DFW in exchange for a cash payment of \$98,070 (USD - \$75,000) (paid) and 345,280 common shares of the Company. This transaction closed during the year ended December 31, 2019 and the deposit of \$98,070 was reallocated to acquisition.

5. INTANGIBLE ASSETS

Intangible assets consisting of the following:

	\$
Balance, December 31, 2018	-
Additions (Note 3)	4,980,000
Balance, December 31, 2019	4,980,000

As of December 31, 2019, the intangible assets are not yet in use and as a result, no amortization has been recorded.

6. LOAN RECEIVABLE

	Arm’s Length Receivable	TeaLief Brands	Total
	\$	\$	\$
Balance, December 31, 2017	282,262	-	282,262
Advances	-	132,959	132,959
Interest	-	7,736	7,736
Reserve	(238,735)	-	(238,735)
Foreign exchange	24,683	7,632	32,315
Balance, December 31, 2018	68,210	148,327	216,537
Amount collected	(45,458)	-	(45,458)
Acquisition of TeaLief Brands (Note 3)	-	(148,327)	(148,327)
Foreign exchange	(3,250)	-	(3,250)
Loss on settlement of debt	(7,487)	-	(7,487)
Balance, December 31, 2019	12,015	-	12,015

During the year ended December 31, 2017, the Company has loaned \$387,063 (USD\$300,000) to a third party. Due to uncertainty in collectability of some of a loan amount, the Company has made a total reserve of \$335,501 on this loan as at December 31, 2018. This loan is non-interest bearing, non-secured with no fixed terms of repayment. During the year ended December 31, 2019, the Company entered into a Settlement Agreement (“Settlement Agreement”) to collect USD \$50,000. Pursuant to the terms of the Settlement Agreement, the Company would be repaid USD \$5,000 per month for 10 months from the effective date. During the year ended December 31, 2019, the Company received \$45,458.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

7. PROPERTY, PLANT AND EQUIPMENT

	Sumas – Property and Facility \$	Oroville – Property and Facility \$	Equipment \$	Land \$	Building \$	Total \$
Cost						
Balance at December 31, 2017	199,609	1,052,869	15,300	-	-	1,267,778
Additions	-	-	8,660	3,061,800	1,567,259	4,637,719
Balance at December 31, 2018	196,609	1,052,869	23,960	3,061,800	1,567,259	5,905,497
Additions	-	-	-	-	-	-
Balance, December 31, 2019	196,609	1,052,869	23,960	3,061,800	1,567,259	5,905,497
Accumulated amortization						
Balance at December 31, 2017	131,256	1,052,868	15,300	-	-	1,199,424
Amortization	-	-	866	-	20,897	21,763
Impairment	68,353	1	-	-	-	68,354
Foreign exchange	-	-	(420)	-	-	(420)
Balance at December 31, 2018	199,609	1,052,869	15,746	-	20,897	1,289,121
Amortization	-	-	1,958	-	62,690	64,648
Balance, December 31, 2019	199,609	1,052,869	17,704	-	83,587	1,353,769
Net book values						
December 31, 2018	-	-	8,214	3,061,800	1,546,362	4,616,376
December 31, 2019	-	-	6,256	3,061,800	1,483,672	4,551,728

Pursuant to the acquisition of Oregon, the Company acquired land with a fair value of \$3,061,800 and building of \$1,567,259 during the year ended December 31, 2018 (Note 5). The Company recorded amortization of \$62,690 (2018 - \$20,897) on the building during the year ended December 31, 2019.

During the year ended December 31, 2018, the Company discontinued its investment in the Sumas property. Subsequently, the Company impaired the Sumas property and wrote off \$68,354.

8. SECURED NOTE PAYABLE

	\$
Balance, December 31, 2017	79,017
Interest	6,527
Repayments	(8,894)
Foreign exchange	6,627
Default on Secured Note Payable	(83,277)
Balance, December 31, 2018 and December 31, 2019	-

On October 31, 2015, the Company entered into a Secured Note Payable (“Secured Note Payable”) with the seller of the Oroville Property in an amount of US\$78,000. The Secured Note Payable was secured against the Oroville Property. During the year ended December 31, 2018, the Company recorded interest of \$6,527 (2017 - \$6,895). The Company made repayments of \$8,894 (2017 - \$11,961). The company defaulted on the Secured Note Payable and forfeited the Company’s 50% ownership in the Oroville Property. The company wrote off the remaining note payable of \$83,277 during the year ended December 31, 2018.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

9. PROMISSORY AND CONVERTIBLE DEBENTURE

	\$
Balance, December 31, 2017	-
Additions	300,000
Balance, December 31, 2018	300,000
Penalty	19,726
Converted	(319,726)
Balance, December 31, 2019	-

Pursuant to the termination of former management, the Company issued \$300,000 non-interest bearing Promissory Notes (“Promissory Notes”) to the former CEO and CFO. During the year ended December 31, 2019, the Company recorded penalty of \$19,726 (2018 - \$Nil) and issued 875,962 common shares and recorded a loss on debt settlement of \$8,760.

CONVERTIBLE DEBENTURE

	\$
Balance, December 31, 2017	-
Additions	1,377,500
Interest	63,409
Balance, December 31, 2018	1,440,909
Interest	33,793
Converted	(1,474,702)
Balance December 31, 2019	-

On June 8, 2018, the Company entered into convertible note agreements (“Convertible Notes”) with the former CEO and CFO. The principal portion of the convertible note is \$1,377,500, bear interest of 8% and is convertible at the discretion of the holder (the “Holders”). The convertible note matured three months from the date of issuance and subsequently became on due on demand. During the year ended December 31, 2019, the Company issued 4,040,278 common shares and settled \$1,474,702 of convertible debenture. The Company recorded a loss on settlement of debt of \$40,405.

10. SHARE CAPITAL

- (a) Authorized: Unlimited common shares without par value
 Issued: 33,438,205 common shares (December 31, 2018: 7,040,181 common shares)

Year ended December 31, 2019

On July 25, 2019 and August 1, 2019, the Company completed a private placement and issued 2,154,580 common shares for gross proceeds of \$657,147. The Company issued 83,137 finder common shares.

During the year ended December 31, 2019, 345,778 options at an exercise price ranging from \$2.25 to \$2.70 were exercised for gross proceeds of \$826,600. Fair value of \$824,141 was re-allocated from contributed surplus to share capital.

During the year ended December 31, 2019, the Company acquired a 100% interest in DFW. As consideration the Company issued 345,269 common shares of the Company for \$547,685.

During the year ended December 31, 2019, the Company issued 9,276,510 common shares of the Company pursuant to the acquisition of ReLyfe Brands for \$2,035,020.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

10. SHARE CAPITAL (CONTINUED)

During the year ended December 31, 2019, the Company issued 9,276,510 common shares of the Company pursuant to the acquisition of TeaLief Brands for \$2,612,686.

During the year ended December 31, 2019, the Company issued 4,916,240 common shares with a fair value of \$1,843,590 to settle promissory and convertible loans. The Company recorded a loss on settlement of debt of \$49,162.

On March 26, 2019, the Company has consolidated all of its issued and outstanding share capital on the basis of one (1) post- consolidation share for each forty-five (45) pre-consolidation common shares. Unless otherwise noted, all figures have been retroactively restated to reflect the share consolidation.

Year ended December 31, 2018

During the year ended December 31, 2018, 320,409 warrants at exercise prices ranging from \$4.50 to \$9.00 per share were exercised for gross proceeds of \$2,165,171. Fair value of \$1,449,129 was re-allocated from contributed surplus to share capital.

During the year ended December 31, 2018, the Company received subscription funds of \$218,519 and services of \$19,500.

During the year ended December 31, 2018, 238,888 options at exercise price ranging from \$5.18 to \$5.85 were exercised for gross proceeds of \$752,500. Fair value of \$608,742 was re-allocated from contributed surplus to share capital.

On January 2, 2018, 222,222 common shares at fair value of \$3,050,000 were issued to acquire WAK.

On June 18, 2018, the Company entered into termination agreements with former management and issued 660,000 common shares with a fair value of \$2,227,500 (Note 13).

On August 28, 2018, the Company issued 1,625,867 common shares at a fair value of \$4,389,840 were issued to acquire the Oregon Properties. The Company issued 81,293 common finders shares with a fair value of \$219,492.

(b) Stock Options

The Company has adopted an incentive stock option plan (the "Option Plan") dated which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with stock exchanges requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares. Included in the Option Plan are provisions that provide that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company and that the number of common shares reserved for issuance pursuant to options granted to all consultants or persons conducting investing relations activities will not exceed 2% of the issued and outstanding common shares within any 12-month period. At the discretion of the Board of Directors of the Company, options granted under the Option Plan can have a maximum exercise term of 5 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

10. SHARE CAPITAL (CONTINUED)

During the year ended December 31, 2019

On February 28, 2019, the Company granted 237,778 stock options at an exercise price of \$2.25 per option with a term of five years expiring February 28, 2024. The grant date fair value of the options was measured at \$518,018. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$2.25; exercise price - \$2.25; expected life - 5 years; volatility - 218%; dividend yield - \$0; and risk-free rate - 1.80%.

On June 5, 2019, the Company granted 583,553 stock options with an exercise price of \$0.54 and term of 5 years expiring on June 5, 2024. The grant date fair value of the options was measured at \$306,138. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$0.54; exercise price - \$0.54; expected life - 5 years; volatility - 215%; dividend yield - \$0; and risk-free rate - 1.31%.

On June 21, 2019, the Company granted 491,624 stock options with an exercise price of \$0.47 and term of 5 years expiring on June 21, 2024. The grant date fair value of the options was measured at \$224,263. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$0.47; exercise price - \$0.47; expected life - 5 years; volatility - 215%; dividend yield - \$0; and risk-free rate - 1.38%.

On December 9, 2019, the Company granted 1,990,000 stock options with an exercise price of \$0.29 and term of 5 years expiring on December 9, 2024. The grant date fair value of the options was measured at \$554,168. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$0.29; exercise price - \$0.29; expected life - 5 years; volatility - 200%; dividend yield - \$0; and risk-free rate - 1.62%.

During the year ended December 31, 2019, the Company cancelled 419,998 stock options with an exercise price ranging from \$2.70 to \$5.18.

During the year ended December 31, 2018

On July 20, 2018, the Company granted 200,000 stock options at an exercise price of \$2.70 per option with a term of five years expiring July 20, 2023. The grant date fair value of the options was measured at \$435,517. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$2.25; exercise price - \$2.70; expected life - 5 years; volatility - 226%; dividend yield - \$0; and risk-free rate - 2.06%.

On September 17, 2018, the Company granted 67,998 stock options at an exercise price of \$5.18 per option with a term of five years expiring September 17, 2023. The grant date fair value of the options was measured at \$280,485. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$4.50; exercise price - \$5.40; expected life - 5 years; volatility - 223%; dividend yield - \$0; and risk-free rate - 2.25%.

On October 3, 2018, the Company granted 111,111 stock options at an exercise price of \$4.50 per option with a term of five years expiring October 3, 2023. The grant date fair value of the options was measured at \$482,311. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$4.50; exercise price - \$4.50; expected life - 5 years; volatility - 224%; dividend yield - \$0; and risk-free rate - 2.43%.

On October 29, 2018, the Company granted 237,778 stock options at an exercise price of \$3.83 per option with a term of five years expiring October 29, 2023. The grant date fair value of the options was measured at \$774,640. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$3.60; exercise price - \$3.83; expected life - 5 years; volatility - 223%; dividend yield - \$0; and risk-free rate - 2.25%.

On December 20, 2018, the Company granted 222,222 stock options at an exercise price of \$2.70 per option with a term of five years expiring December 20, 2023. The grant date fair value of the options was measured at \$629,880. The options were measured using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$3.15; exercise price - \$2.70; expected life - 5 years; volatility - 220%; dividend yield - \$0; and risk-free rate - 1.90%.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

10. SHARE CAPITAL (CONTINUED)

Stock options (continued)

As at December 31, 2019, the Company had stock options outstanding and exercisable enabling holders to acquire the following:

Number of Shares	Exercise Price	Expiry Date
5,556	\$9.00	May 4, 2020
55,555	\$4.50	October 3, 2023
583,553	\$0.54	June 5, 2024
491,624	\$0.47	June 21, 2024
1,990,000	\$0.29	December 9, 2024
3,126,288	\$0.46	

A summary of the status of the Company's stock options outstanding and exercisable as at December 31, 2019 and December 31, 2018, and changes during those years is presented below:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2017	284,445	11.47
Granted	839,109	3.46
Expired	(277,778)	11.34
Exercised	(238,889)	3.15
Balance, December 31, 2018	606,887	\$ 3.73
Granted	3,302,955	0.50
Expired/cancelled	(437,776)	(3.74)
Exercised	(345,778)	2.39
Balance, December 31, 2019	3,126,288	\$ 0.46

The stock options have a weighted average remaining life of 3.46 years.

(c) Warrants

As at December 31, 2019, the Company had warrants outstanding and exercisable enabling holders to acquire the following:

Number of Shares	Exercise Price	Expiry Date
34,889	\$6.75	April 15, 2020
51,112	\$6.75	February 8, 2020
86,001	\$6.75	

A summary of the status of the Company's stock options outstanding and exercisable as at December 31, 2019 and December 31, 2018, and changes during those years is presented below:

	Number of warrants	Weighted Average Exercise Price
Balance, December 31, 2017	568,029	\$ 7.68
Exercised	(320,409)	6.76
Expired	(72,731)	9.00
Balance, December 31, 2018	174,889	\$ 8.81
Expired	(88,888)	(10.80)
Balance, December 31, 2019	86,001	\$ 6.75

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

11. CAPITAL DISCLOSURES

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include administrative costs and general expenditures. In the management of capital, the Company includes cash, due to related parties, loan payable, notes payable, and the components of shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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. Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares, through its commercial activities and through obtaining financing. There are no assurances that funds will be made available to the Company when required.

In order to carry out the planned development and pay for administrative costs, the Company will spend its existing working capital and expects to raise additional amounts as needed. The Company will continue to assess new business and seek to acquire an interest in additional business if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash, and all are held in major Canadian financial institutions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended December 31, 2019. The Company is not subject to externally imposed capital requirements.

12. FINANCIAL INSTRUMENTS AND RISK FACTORS

(a) Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of transactions is classified according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs are other than quoted prices in Level 1 that are either directly or indirectly observable for the asset or liability.
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level. The company's cash and cash equivalents have been valued using Level 1 inputs.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

12. FINANCIAL INSTRUMENTS AND RISK FACTORS (CONTINUED)

(a) Fair values (Continued)

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at December 31, 2019 as follows:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial Assets				
Loans receivable	12,015	-	-	12,015
Cash	18,209	-	-	18,209
	30,224	-	-	30,224
Financial Liabilities				
Accounts payable and accrued liabilities	168,917	-	-	168,917
	168,917	-	-	168,917

(b) Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations. Cash is held with reputable Canadian financial institutions, from which management believes the risk of loss to be minimal. The Company has not experienced any significant credit losses and believes it is not exposed to any significant credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company's exposure to liquidity risk is dependent on raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital and cash flows. The Company ensures that sufficient funds are raised from private placements or loans to meet its operating requirements, after taking into account existing cash. The Company's cash is held in business accounts which are available on demand for the Company's business and are not invested in any asset-backed deposits or investments.

As at December 31, 2019, the Company had cash of \$18,209 to settle current liabilities of \$207,155. The Company has accounts payable of \$168,917 (2018 - \$103,731), promissory notes of \$Nil (2018 - \$300,000) and convertible notes of \$Nil (2018 - \$1,440,909). During the year ended December 31, 2019, the Company settled the promissory and convertible notes for shares.

(d) 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. If interest rates decrease, the Company will generate smaller interest revenue. The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets. The Company is not susceptible to interest rate fair value risk on its note payables that bear fixed interest rates.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

13. RELATED PARTY TRANSACTIONS

The Company incurred the following related party transactions, with associated persons or corporations, which were measured at the exchange amount as follows:

- a) Key management includes directors, executive officers and officers which constitutes the management team. The Company paid or accrued compensation in form of consulting fees to companies controlled by directors, executive officers and officers as follows:

<i>Management Compensation</i>	Legal fees	Director fees	Total
<i>Year ended December 31, 2019</i>	\$	\$	\$
Director of the Company	7,500	138,299	145,799
Benjamin Martch, CEO of WAK	-	134,963	134,963
Joshua Bartch, CEO Of the Company	-	237,537	237,537
Total	7,500	510,799	518,299

<i>Management Compensation</i>	Consulting fees	Director fees	Share Compensation	Legal
<i>Year ended December 31, 2018</i>	\$	\$	\$	\$
Carman Parente, former CEO	102,750	17,050	-	-
Anthony Chan, former CFO	54,538	13,500	-	-
David Johnson, former Director	23,152	10,600	-	-
Lorraine Pike, former Director	36,736	12,000	-	-
NHS Industries, former related Company	18,000	-	-	-
Company controlled by a director	-	39,193	93,495	13,805
Benjamin Martch, CEO of WAK	80,233	29,198	93,495	-
Joshua Bartch, CEO Of the Company	302,473	29,198	93,495	-
Total	617,882	150,739	280,485	13,805

- b) As at December 31, 2019 accounts payable and accrued liabilities were due to related parties of \$Nil (2018 - \$nil).
- c) On June 8, 2018, the Company entered into termination agreement with the following members of management:
- Carman Parente, former CEO and Director;
 - Anthony Chan, former CFO;
 - David Johnson, former Director; and,
 - Lorraine Pike, former Director.

In connection with the agreements, the Company issued the following:

- Issued 313,889 common shares to the former CEO with a fair value of \$1,059,375.
- Issued 88,333 common shares to the former CFO with a fair value of \$298,125.
- Issued 257,778 common shares to former Directors with a fair value of \$870,000.

The Company agreed to also pay the following:

- Paid \$210,000 to the former CEO
- Paid \$183,750 to the former CFO
- Paid \$236,250 to former directors of the Company.
- Issued a \$160,000 non-interest bearing promissory note to the former CEO.
- Issued a \$140,000 non-interest bearing promissory note to the former CFO.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

13. RELATED PARTY TRANSACTIONS (CONTINUED)

On June 8, 2018, the Company entered into convertible note agreements with the former CEO and CFO. The principal portion of the convertible note is \$1,377,500, bear interest of 8% and is convertible at the discretion of the holder. The convertible note matures on September 8, 2018 or the next shareholder meeting that approves the rollback of common stock, whichever is earliest. As at December 31, 2019, the Company accrued interest of \$33,793 (2018 - \$63,409).

14. RIGHT-OF-USE ASSETS AND LEASE LIABILITY

	Office Lease
<i>Right-of-use assets</i>	\$
At January 1, 2019	-
Additions	115,595
Depreciation	(44,790)
Foreign exchange	(1,500)
At December 31, 2019	69,305
<hr/>	
	Office Lease
<i>Lease obligations</i>	\$
At January 1, 2019	-
Additions	115,595
Foreign exchange	(6,669)
Payments	(46,545)
At December 31, 2019	62,381
Less: current portion	(38,238)
Non-current portion	(24,143)

The Company primarily lease office space. The office lease run for a period of 3 years.

The adoption of IFRS 16 has resulted in the Company recognizing a right-of-use asset and lease liability on the Consolidated Statement of Financial Position for office leases with firm periods of greater than one year. The Company recognized its right-of-use asset and lease liability for this lease based on the present value of future minimum lease payments, whereas previously no right-of-use asset or lease liability was recognized. As at December 31, 2019, the right-of-use asset was \$69,305 and the lease obligation was \$62,381. The Company used a discount rate of 8%.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

15. INCOME TAXES

The income taxes shown in the Consolidated Statements of Operations differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

	2019	2018
	27.0%	27.0%
	\$	\$
Loss for the year	(3,507,737)	(13,355,218)
Expected income tax recovery	(947,089)	(3,602,909)
Items deductible and not deductible for income tax purposes	455,897	1,591,964
Change in tax rates	(27,029)	(75,291)
Current and prior tax attributes not recognized	518,221	2,089,236
	<u>-</u>	<u>-</u>

Details of deferred tax assets are as follows:

	2019	2018
	\$	\$
Non-capital and capital loss carryforwards	6,303,575	5,807,087
Equipment and others	93,547	71,814
Unrecognized deferred tax assets	(6,397,122)	(5,878,901)
	<u>-</u>	<u>-</u>

As at December 31, 2019, the Company had approximately \$23,000,000 of non-capital losses available, which begin to expire through to 2039 and may be applied against future taxable income.

At December 31, 2019, the net amount which would give rise to a deferred income tax asset has not been recognized as it is not probable that such benefit will be utilized in the future years.

16. SUBSEQUENT EVENTS

On March 17, 2020, the Company cancelled 2,573,553 incentive stock options to Directors and Management with a weighted exercise price and expected life of \$0.35 and 4.60 years.

On April 22, 2020, the Company acquired 50% of Levee Street Holdings, LLC (“Levee”) via a Share Swap Agreement. Levee is a distributor of CBD products. Pursuant to the terms of the arrangement, the Company issued 4,500,000 common shares of the Company.

On April 28, 2020, the Company entered into a definitive agreement to acquire 100% of 1220611 B.C. Ltd o/a Mydecine Group (“Mydecine”). Mydecine is a vertically integrated company engaged in the research and development of various strains of mushrooms and fungi. Pursuant to the terms of the arrangement, the Company issued 17,000,000 common shares of the Company. The Company also issued 1,360,000 finder common shares of the Company.

On May 5, 2020, the Company acquired 37.5% Trellis Holdings Oregon OP, LLC. (“Trellis”). Trellis is in cannabis business in Portland, Oregon. Pursuant to the terms of the arrangement, the Company issued 28,000,000 common shares of the Company.

On May 7, 2020, the Company completed a private placement and issued 52,908,420 common shares for gross proceeds of \$2,645,421. The Company issued 529,034 finder common shares and issued 1,183,000 finder warrants (“Finder Warrant”). Each Finder Warrant consists of one common share with an exercise price of \$0.05 and expires on May 7, 2021.

NEWLEAF BRANDS INC. (FORMERLY NEW AGE BRANDS INC.)
NOTES TO THE CONSOLIDATED STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
EXPRESSED IN CANADIAN DOLLAR

16. SUBSEQUENT EVENTS (CONTINUED)

Subsequent to year-end, 86,001 warrants expired with an exercise price of \$6.75.

Subsequent to year-end, 61,111 options were cancelled with a weighted average exercise price of \$4.91.

Subsequent to year-end, the Company issued 2,851,533 stock options to consultants of the Company, with a weighted average exercise price and expiry date of \$0.06 and 5 years, respectively.