

# **New Leaf Ventures, Inc.**

**Condensed Consolidated Interim Financial Statements**

**Six Months Ended June 30, 2020 and 2019**

**(Expressed in Canadian Dollars)**

**New Leaf Ventures Inc.**  
**Condensed Interim Financial Statements**  
**For the Six Months Ended June 30, 2020**

The accompanying unaudited condensed interim financial statements of New Leaf Ventures Inc. for the six months ended June 30, 2020 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of the condensed consolidated interim financial statements by an entity's auditor.

**New Leaf Ventures, Inc.**  
**Condensed Consolidated Interim Statement of Financial Position**  
**(Expressed in Canadian Dollars)**

Assets	Note(s)	As at June 30, 2020	As at December 31, 2019
<b>Current Assets</b>			
Cash		\$ 617,405	\$ 80,150
Accounts receivable		45,189	31,744
Due from related party	3, 7	878,539	48,390
Prepaid balances		141,280	30,750
<b>Total Current Assets</b>		<b>1,852,104</b>	<b>191,034</b>
<b>Non-current assets</b>			
Equipment	3, 4	996,859	-
Leases Receivable		2,849,364	-
Intellectual Property	3, 5	1,605,549	-
Goodwill	3	2,502,244	-
Other assets	3, 6	75,306	-
<b>Total Assets</b>		<b>\$ 9,881,426</b>	<b>\$ 191,034</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	3, 7	\$ 762,292	\$ 587,798
Current portion of lease obligations	3, 9	148,753	-
Current portion of notes payable	3, 7	998,669	-
Current portion of deferred gain	3	98,094	-
<b>Total Current Liabilities</b>		<b>2,007,808</b>	<b>587,798</b>
<b>Long Term Liabilities</b>			
Notes payable to related party	3, 7	1,478,497	-
Lease obligation	3, 9	2,849,366	-
Deferred gain	3, 10	106,268	-
Security deposits	3, 8	16,354	-
<b>Total Long Term Liabilities</b>		<b>4,450,485</b>	<b>-</b>
<b>Total Liabilities</b>		<b>6,458,293</b>	<b>587,798</b>
<b>Shareholders' Equity</b>			
Share capital	11	5,661,432	736,251
Share-based payments reserve	11	790,126	34,338
Share subscriptions received		-	40,000
Foreign currency translation		(70,681)	-
Deficit		(2,957,744)	(1,207,353)
<b>Total Shareholders' Equity</b>		<b>3,423,133</b>	<b>(396,764)</b>
<b>Total Shareholders Equity and Liabilities</b>		<b>\$ 9,881,426</b>	<b>\$ 191,034</b>

Nature of operations and continuance of operations (note 1)  
Acquisition of New Leaf USA, Inc. (note 3)  
Subsequent Events (note 14)

Approved on behalf of the Board:

/s/ Robert Colwell

/s/ Chris Cooper

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

**New Leaf Ventures, Inc.**  
**Condensed Consolidated Interim Statement of Income and Comprehensive Income**  
**(Expressed in Canadian Dollars)**

	Note(s)	For the Three Months Ended		For the Six Months Ended	
		June 30		June 30	
		2020	2019	2020	2019
<b>Revenue</b>		\$ 517,900	\$ -	\$ 517,900	\$ -
<b>Operating Expenses</b>					
Amortization	5	37,240	-	37,240	-
Communication		12,019	-	19,449	-
Consulting	7	46,468	126,066	58,468	136,566
Depreciation	4	16,678	-	16,678	-
Directors fees	7	6,000	-	12,000	-
Marketing		433,295	-	433,295	-
Office		68,226	108	68,409	436
Professional fees		143,635	222,018	281,922	228,737
Regulatory and filing fees		22,073	1,481	22,073	1,481
Share-based compensation	11	36,652	-	69,009	-
Wages and salaries	3, 7	1,192,253	-	1,192,253	-
<b>Total Operating Expenses</b>		(2,014,539)	(349,673)	(2,210,796)	(367,220)
<b>Other expenses</b>					
Interest Income	9	74,831	-	74,831	-
Accretion Expense	7	(61,331)	-	(61,331)	-
Amortization of deferred gain	10	16,495	-	16,495	-
Foreign exchange		(4,699)	(2,447)	(12,659)	(2,447)
Interest Expense	9	(74,831)	-	(74,831)	-
<b>Net loss for the period</b>		(1,546,174)	(352,120)	(1,750,391)	(369,667)
<b>Other Comprehensive Loss</b>					
Foreign currency translation adjustment		(70,681)	-	(70,681)	-
<b>Total Comprehensive Loss for the period</b>		\$ (1,616,855)	\$ (352,120)	\$ (1,821,072)	\$ (369,667)
<b>Basic and Diluted Loss per share</b>		\$ (0.06)	\$ (0.03)	\$ (0.09)	\$ (0.04)
<b>Weighted average number of shares outstanding, Basic and Diluted</b>		25,022,952	12,000,200	18,833,976	8,287,493

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

**New Leaf Ventures, Inc.**  
**Condensed Consolidated Interim Statement of Changes in Equity**  
**(Expressed in Canadian Dollars)**

	Note(s)	Share capital		Share subscription received	Stock options reserve	Foreign Currency Translation	Accumulated deficit	Total
		Number of shares	Amount					
<b>Balance as at December 31, 2018</b>		200	\$ 1	-	-	\$ -	(36,250)	\$ (36,249)
Shares issued for cash - private placement	11	12,000,000	600,000	-	-	-	-	600,000
Share issue costs	11	-	(25,000)	-	-	-	-	(25,000)
Net loss for the period		-	-	-	-	-	(369,667)	(369,667)
<b>Balance as at June 30, 2019</b>		12,000,200	575,001	-	-	-	(405,917)	169,084
Cancellation of incorporator's shares	11	(200)	-	-	-	-	-	-
Shares issued for restricted share rights	11	500,000	125,000	-	-	-	-	125,000
Settlement of the loan payable		145,000	36,250	-	-	-	-	36,250
Subscriptions received in advance		-	-	40,000	-	-	-	40,000
Share-based payments	11	-	-	-	34,338	-	-	34,338
Net loss for the period		-	-	-	-	-	(801,436)	(801,436)
<b>Balance as at December 31, 2019</b>		12,645,000	736,251	40,000	34,338	-	(1,207,353)	(396,764)
Shares issued for cash - private placement	11	7,759,271	1,939,817	(40,000)	-	-	-	1,899,817
Share issue costs	11	-	(179,305)	-	37,339	-	-	(141,966)
Shares issued on Acquisition Transaction	3, 11	9,000,000	2,250,000	-	-	-	-	2,250,000
Shares issued as signing bonus to New Leaf USA Executives	3, 11	3,658,676	914,669	-	-	-	-	914,669
Fair value of warrants issued for Acquisition Transaction	3	-	-	-	649,440	-	-	649,440
Share-based payments	11	-	-	-	69,009	-	-	69,009
Net loss for the period		-	-	-	-	(70,681)	(1,750,391)	(1,821,072)
<b>Balance as at June 30, 2020</b>		33,062,947	\$ 5,661,432	\$ -	\$ 790,126	\$ (70,681)	\$ (2,957,744)	\$ 3,423,133

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

**New Leaf Ventures, Inc.**  
**Condensed Consolidated Interim Statement of Cash Flows**  
**(Expressed in Canadian Dollars)**

		<b>Six Months Ended</b>	
	<b>Note</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
<b>Cash flow provided from Operations</b>			
<b>OPERATING ACTIVITIES</b>			
<b>Net income for the period</b>		\$ (1,750,391)	\$ (367,220)
<b>Adjustments for items not affecting cash:</b>			
Accrued interest income	9	(74,167)	-
Amortization of intellectual property	5	37,240	-
Accretion expense	7	61,331	-
Amortization of deferred gain	10	(16,495)	-
Depreciation of equipment	4	16,678	-
Foreign exchange		(6,913)	(2,447)
Share-based compensation	11	69,009	-
Wages and salaries for shares	3, 7	914,669	-
<b>Change in non-cash working capital</b>			
Accounts receivable		(13,445)	
Prepays		(141,280)	(30,750)
Accounts payable and accrued liabilities	9	124,562	-
Due from related party	3, 7	(432,094)	-
Loans receivable		-	(20,000)
<b>Cash flow from (used in) operating activities</b>		<b>(1,211,296)</b>	<b>(420,417)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of equipment	4	(18,924)	-
Payment of lease obligations	9	(21,126)	-
<b>Cash flow from (used in) investing activities</b>		<b>(40,050)</b>	<b>-</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from share issuance	11	1,788,601	575,000
<b>Cash flow from (used in) financing activities</b>		<b>1,788,601</b>	<b>575,000</b>
<b>Increase in cash</b>		<b>537,255</b>	<b>154,583</b>
<b>Cash, beginning of period</b>		<b>80,150</b>	<b>1</b>
<b>Cash, end of period</b>		<b>\$ 617,405</b>	<b>\$ 154,584</b>
<b>Cash received during the period from interest</b>		<b>\$ -</b>	<b>\$ -</b>
<b>Cash paid during the period for income tax</b>		<b>\$ -</b>	<b>\$ -</b>

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

**New Leaf Ventures, Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the Six Months Ended June 30, 2020**  
**(Expressed in Canadian Dollars)**

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## **1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS**

New Leaf Ventures Inc. (formerly known as “1166858 B.C. Ltd.”) (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on June 4, 2018. The Company’s head office, principal address and registered address and records office is 2200 HSBC Building, 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8, Canada.

On September 13, 2019, the Company entered into the Share Purchase Agreement (“Acquisition Transaction”) to purchase New Leaf USA Inc. (“New Leaf USA”) and its subsidiaries (collectively the “New Leaf USA Entities”). As a result of the completion of the Acquisition Transaction on May 1, 2020, the New Leaf USA Entities are now the core business of the Company, and through which the Company will provide consulting services, real property, intellectual property and equipment for lease and enhanced ancillary services to the License Holder. Refer to Note 3 for details on the Acquisition Transaction.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to acquire and develop its business interests, and to commence profitable operations in the future. As at June 30, 2020 the Company had a working capital deficiency of \$155,704 (December 31, 2019 – Working capital deficiency of \$396,764) and an accumulated deficit of \$2,957,744 (December 31, 2019 - \$1,207,353). These items may cast a significant doubt on the Company’s ability to continue as a going concern. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. Company’s continuation as a going concern is dependent upon the successful results from its products and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management intends to fund operating costs over the next twelve months with cash generated from sales and through further equity financings.

### **GLOBAL PANDEMIC**

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. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business, ability to raise funds and the completion of the proposed transactions discussed below.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS AND PRESENTATION**

### **Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

**New Leaf Ventures, Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the Six Months Ended June 30, 2020**  
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## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS AND PRESENTATION (CONTINUED)**

The condensed consolidated interim financial statements do not include all of the information required for annual consolidated financial statements and should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS, as issued by the IASB.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on October 14, 2020.

### **Basis of presentation**

These financial statements have been prepared in United States dollars on a historical cost basis except for financial instruments classified and measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

### **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented.

#### **Critical accounting estimates and judgements**

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgements, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable.

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The information about significant areas of estimation uncertainty and judgment considered by management in preparing these financial statements is as follows:

- **Intangible assets**

Intangible assets acquired are measured at fair value at the acquisition date. The Company must exercise judgment in identifying intangible assets, in determining their useful life, if any, and in testing for impairment.

- **Estimated useful lives and depreciation of equipment**

Depreciation of equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

- **Estimated useful lives and amortization of intangible assets**

Amortization of intangible assets is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions.



## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS AND PRESENTATION (CONTINUED)**

- **Impairment of lease receivable**

The valuation of allowance for uncollectable lease receivable requires assumptions including the estimated credit losses based on the Company's knowledge of the financial conditions of the counterparty, historical experience and general economic conditions.

- **Impairment of long-lived assets**

Long-lived assets, including equipment, and intangible assets, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets ("CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

- **Income taxes**

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax planning 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. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

**New Leaf Ventures, Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the Six Months Ended June 30, 2020**  
**(Expressed in Canadian Dollars)**

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**3. ACQUISITION OF NEW LEAF USA, INC.**

On April 30, 2020, the Company completed their previously announced acquisition of New Leaf USA, Inc. and all of its wholly-owned subsidiaries. In consideration for the acquisition, the Company issued the following:

- Issued 9,000,000 shares; and
- Issued 4,000,000 performance warrants (“Performance Warrants”).

Each Performance Warrant entitles the holder to purchase one common share of the Company at the price of \$0.02 per common share for a period of three years, and will vest and become exercisable as follows:

- 2,000,000 Performance Warrants will vest and become exercisable if the Company or New Leaf Enterprises, Inc. (the “License Holder”) achieves at least \$5,000,000 in annual gross revenue; and
- 2,000,000 Performance Warrants will vest and become exercisable the Company or License Holder achieves at least \$7,500,000 in annual gross revenue.

In addition, New Leaf USA entered into employment agreements, pursuant to which Robert Colwell is appointed to act as Chief Executive Officer of New Leaf USA, and Boris Gorodnitsky is appointed to act as President of New Leaf USA, in each case, for a period of three years following the closing of the Acquisition Transaction, and pursuant to which the Company issued 1,829,338 common shares to each of Boris Gorodnitsky and Robert Colwell. Please refer to note 7 for additional details.

The following table shows the preliminary allocation of the purchase price to assets acquired and liabilities assumed, based on estimates of fair value, including a summary of the identifiable classes of consideration transferred, and amounts by category of assets acquired and liabilities assumed at the acquisition date:

Fair value of 9,000,000 common shares issued <sup>(1)</sup>	\$	2,250,000
Contingent consideration <sup>(2)</sup>		649,440
<b>Consideration</b>	<b>\$</b>	<b>2,899,440</b>
Cash	\$	3
Receivable from Related party		335,175
Leases receivables		3,015,981
Equipment		1,015,214
Intellectual property		1,676,445
Goodwill		2,554,022
Deposits		76,864
Accounts payable		(49,932)
Capital lease obligations		(3,015,981)
Notes payables		(2,466,380)
Deferred gain		(225,279)
Security deposits		(16,692)
<b>Net identifiable assets acquired</b>	<b>\$</b>	<b>2,899,440</b>

<sup>(1)</sup> The common shares were valued at the initial public offering price of \$0.25 per common share.

<sup>(2)</sup> Contingent consideration consists of 4,000,000 common share warrants. The common share purchase warrants have a life of three years from the date of grant and have an exercise price of \$0.20. The common share warrants were valued using the Black-Scholes Option Pricing model

**New Leaf Ventures, Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the Six Months Ended June 30, 2020**  
**(Expressed in Canadian Dollars)**

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**4. EQUIPMENT**

		<b>Equipment</b>
<b>Cost</b>		
Balance as at December 31, 2019	\$	-
Additions:		
Acquisition Transaction		1,015,214
Additions		18,924
Currency translation adjustment		(20,749)
<b>Balance as at June 30, 2020</b>		<b>1,013,389</b>
<b>Depreciation</b>		
Balance as at December 31, 2019		-
Additions		16,678
Currency translation adjustment		(148)
<b>Balance as at June 30, 2020</b>	\$	<b>16,530</b>
<b>Net book value</b>		
<b>As at December 31, 2019</b>	\$	-
<b>As at June 30, 2020</b>	\$	<b>996,859</b>

**5. INTANGIBLE ASSETS**

		<b>Intellectual Property</b>
<b>Cost</b>		
Balance as at December 31, 2019	\$	-
Additions:		
Acquisition Transaction		1,676,445
Additions		0
Currency translation adjustment		(33,987)
<b>Balance as at June 30, 2020</b>		<b>1,642,458</b>
<b>Depreciation</b>		
Balance as at December 31, 2019		-
Additions		37,240
Currency translation adjustment		(331)
<b>Balance as at June 30, 2020</b>	\$	<b>36,909</b>
<b>Net book value</b>		
<b>As at December 31, 2019</b>	\$	-
<b>As at June 30, 2020</b>	\$	<b>1,605,549</b>

The Company leases the intangible assets to the License Holder (Note 3) in exchange for an annual exclusivity fee of USD\$100,000 and the greater of \$1.07 per each unit sold and a quarterly license fee of USD\$150,000 for a period of six months, expiring September 30, 2020. The licensing agreement was extended for six months on October 1, 2020.

**New Leaf Ventures, Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the Six Months Ended June 30, 2020**  
**(Expressed in Canadian Dollars)**

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**6. LEASE DEPOSITS**

	<b>Building Lease</b>	
Balance as at December 31, 2019	\$	-
Additions:		
Acquisition Transaction		76,864
Currency translation adjustment		(1,558)
<b>Balance as at June 30, 2020</b>	<b>\$</b>	<b>75,306</b>

**7. RELATED PARTY TRANSACTIONS**

As outlined in Note 3, related party transactions consist of monthly transactions with the License Holder, who is related by way of common executives. Key management include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management consist of executive and non-executive members of the Company's Board of Directors and corporate officers and/or companies controlled by those individuals.

(i) Service Revenue

<b>Transactions with License Holder</b>		
Equipment lease revenue	\$	16,500
Service fee		412,500
Variable IP licensing fee		88,900
<b>Total revenue for the period</b>	<b>\$</b>	<b>517,900</b>
<b>Due from License Holder</b>		
Balance, December 31, 2019	\$	48,390
Additions - Acquisition transaction		335,175
Total billings for the period		594,398
Advances to the License Holder		105,197
Less:		
Payments received from the License Holder		(193,334)
Currency translation adjustment		(11,287)
<b>Due from License Holder, as at June 30, 2020</b>	<b>\$</b>	<b>878,539</b>

**New Leaf Ventures, Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the Six Months Ended June 30, 2020**  
**(Expressed in Canadian Dollars)**

**7. RELATED PARTY TRANSACTIONS - CONTINUED**

(ii) Notes Payable

Balance, December 31, 2019	\$	-
Addition - Acquisition transaction		2,691,659
Deferred gain		(225,279)
Accretion expense		61,331
Currency translation adjustment		(50,545)
<b>Balance, June 30, 2020</b>	<b>\$</b>	<b>2,477,166</b>
<b>Current</b>	<b>\$</b>	<b>998,669</b>
<b>Long-term</b>	<b>\$</b>	<b>1,478,497</b>

The notes payables are unsecured, bear an interest rate of 2.72% per annum and are for a period of two years commencing once the Company has closed an acquisition transaction as outlined in Note 9. The notes are to be paid in eight, equal, quarterly installments of US\$236,269.

(iii) Key Personnel Compensation

	<b>Six Months Ended</b>	
	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Directors' fees	\$ 12,000	\$ -
Consulting fees <sup>(1)</sup>	34,000	-
Share-based payments <sup>(2)</sup>	69,009	-
Wages and salaries <sup>(3)</sup>	969,669	-
	<b>1,084,678</b>	<b>-</b>

<sup>(1)</sup> During the six months ended June 30, 2020, the Company incurred consulting fees of \$24,000 (Six months ended June 30, 2019 - \$Nil) to a company controlled by the CEO and consulting fees of \$10,000 (Six months ended June 30, 2019 - \$Nil) to a company controlled by the CFO. As at June 30, 2020, the amounts owing to companies controlled by management were \$42,000.

<sup>(2)</sup> Share-based payments related to share purchase options issued to directors in 2019.

<sup>(3)</sup> Wages and salaries consist of \$914,669 related to common shares issued to two executives of one of the Company's subsidiaries as a signing bonus and \$55,000 in salaries for the three months ended June 30, 2020. See note 4.

(iv) Key Personnel Employment Contracts

The Company entered into employment contracts with Boris Gorodnitsky and Robert Caldwell to act as President and CEO, respectively, for New Leaf USA, Inc. The agreements are effective as of May 1, 2020 for three-year terms with one-year renewal terms upon mutual agreement. Pursuant to the agreements, each individual will receive the following terms:

- a. Base salary of US\$120,000 per annum payable in 12 monthly instalments of US\$10,000;
- b. Two weeks of paid vacation;
- c. Signing bonus of 1,829,338 common share of the Company (issued) each upon signing of the agreements;
- d. Change of control clause payments equal to the total base salary from the date of termination through the end of the agreements, payable in equal monthly instalments of US\$10,000; and
- e. Death or disability benefits equal to 6 months of their annual base salary, payable in cash, within 45 days of death or disability.

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**8. SECURITY DEPOSITS**

<b>Balance as at December 31, 2019</b>	\$	-
Addition – Acquisition transaction (note 4)		16,692
Currency translation adjustment		(338)
<b>Balance as at June 30, 2020</b>	\$	12,354

**9. LEASES**

(i) The Company as a Lessee:

On May 1, 2020, as part of the Acquisition Transaction, the Company acquired a lease consisting of approximately a 30,000 square foot integrated cultivation facility located in Seattle, Washington. The facility is subleased to the License Holder with the Company maintain the lease obligation.

The Company used 15% interest rate, its incremental borrowing rate to calculate the present value of the lease payments as well as to calculate the monthly accretion expense.

The Company's lease obligations are as follows:

<b>Lease Receivable</b>	<b>Six Months Ended June 30, 2020</b>	
Balance, December 31, 2019	\$	-
Addition - Acquisition transaction		3,081,528
Currency translation adjustment		(62,473)
<b>Balance, June 30, 2020</b>	\$	3,019,055

The Company used a 15% interest rate, its incremental borrowing rate, to calculate the present value of the lease payments as well as to calculate the monthly interest expense. The Company recorded \$74,831 interest expense during the period.

Minimum lease payments receivable are as follows:

<b>Minimum lease payments receivable for each fiscal year:</b>		
2020	\$	310,819
2021		590,949
2022		610,684
2023		640,945
2024		669,518
2025 and thereafter		2,388,385
		5,211,300
Amount representing interest		(2,192,245)
Less: Current lease receivable		(169,691)
<b>Long-term</b>	\$	2,120,522

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**9. LEASES (CONTINUED)**

(ii) The Company as a Lessor:

<b>Lease Obligation Payable</b>	<b>Six Months Ended June 30, 2020</b>
Balance, December 31, 2019	-
Addition - Acquisition Transaction	3,081,528
Interest	74,831
Payments	(95,957)
Currency translation adjustment	(62,283)
<b>Balance, June 30, 2020</b>	<b>\$ 2,998,119</b>

The Company used a 15% interest rate, its incremental borrowing rate, to calculate the present value of the lease payments as well as to calculate the monthly interest income. The Company recorded \$74,831 interest income during the period.

Minimum lease payments receivable are as follows:

<b>Minimum lease payments for each fiscal year:</b>	
2020	\$ 450,841
2021	433,628
2022	448,110
2023	470,315
2024	491,281
2025 and thereafter	1,752,557
	4,046,732
Amount representing interest	(1,803,035)
Less: Current lease obligation	(123,175)
<b>Long-term</b>	<b>\$ 2,120,522</b>

During the three months ended June 30, 2020, interest expense and interest income of \$82,563 was charged to the statement of income and comprehensive income.

**10. DEFERRED GAIN**

Balance, December 31, 2019	\$ -
Addition - Acquisition transaction	2,691,659
Deferred gain	(225,279)
Accretion expense	61,331
Currency translation adjustment	(50,545)
<b>Balance, June 30, 2020</b>	<b>\$ 2,477,166</b>

The Company recognized a deferred gain related to the difference between the fair value of the note's payables acquired during the Acquisition Transaction and the fair value of the equipment and the intellectual property. The deferred gain is being amortized over the period of the notes payable.

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## **11. SHARE CAPITAL**

### **Authorized share capital**

The Company's authorized to issue up to unlimited common shares without par value.

### **Issued share capital**

#### **During the six months ended June 30, 2020:**

- On April 30, 2020, the Company completed its initial public offering (the "Offering") of 4,768,871 units (the "Units") at a price of \$0.25 per Unit (the "Offering Price"), for aggregate gross proceeds of approximately \$1,192,217. Each Unit is comprised of one common share in the Company (a "Common Share") and one-half common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will be exercisable at a price of \$0.40 for a period of 24 months from the listing of the Common Shares on the Canadian Securities Exchange (the "CSE"), subject to early expiry (the "Early Expiry Event") if the closing price of the Common Shares on the CSE (or any equivalent exchange) is equal to or greater than \$0.60 per Common Share for a period of ten consecutive trading days.

The agent for the Offering was Mackie Research Capital Corporation (the "Agent"). In connection with the Offering, pursuant to the agency agreement dated February 10, 2020, as amended on April 17, 2020, between the Company and the Agent, the Agent received a cash commission to 8% of the gross proceeds from the Offering from certain purchasers of the Units (the "Purchasers"), other than those on the Company's president's list and 2% of the gross proceeds from the Offering from Purchasers on the Company's president's list, and received a corporate finance fee of \$30,000 (plus GST). Total cash share issue costs related to the Offering amounted to \$97,604.

The Company also granted 136,280 non-transferrable share purchase warrants (the "Agent Warrants") to the Agent and members of its selling group. Each Agent Warrant will entitle the holder thereof to purchase one unit (an "Agent Unit") at an exercise price of \$0.25 until the April 30, 2022, subject to an early expiry date upon the occurrence of the Early Expiry Event. Each Agent Unit consists of one Common Share and one-half of one warrant (each whole warrant, an "Agent Unit Warrant"). Each Agent Unit Warrant will entitle the holder thereof to purchase one Common Share on the same terms and conditions as the Warrants. The fair value of the Agent Warrants was \$18,643, calculated using the Black-Scholes option pricing model. The amount was charged to share capital as non-cash share issue costs.

- On April 30, 2020, the Company issued 9,000,000 common shares in connection with the Acquisition Transaction, that made up a portion of the purchase price. In addition, as part of the Acquisition Transaction, the Company issued a total of 3,658,676 to Boris Gorodnitsky and Robert Colwell as a signing bonus to become executives of New Leaf USA, Inc.



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**11. SHARE CAPITAL - CONTINUED**

**Issued share capital – continued**

- On June 3, 2020, the Company completed a second tranche of its initial public offering of 2,990,400 units (the “Units”) at a price of \$0.25 per Unit (the “Offering Price”), for aggregate gross proceeds of approximately \$747,600 (the “Second Tranche”). Each Unit is comprised of one common share in the Company (a “Common Share”) and one-half common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant will be exercisable at a price of \$0.40 until April 30, 2022 (the “Expiry Date”) subject to early expiry (the “Early Expiry Event”) if the closing price of the Common Shares on the CSE (or any equivalent exchange) is equal to or greater than \$0.60 per Common Share for a period of ten consecutive trading days.

In connection with the Second Tranche, pursuant to the agency agreement dated February 10, 2020, as amended on April 17, 2020, between the Company and the Mackie Research Capital Corporation (the “Agent”), the Agent received a cash commission in the amount of \$9,600 in connection with the Second Tranche from certain purchasers of the Units (the “Purchasers”) as well as reimbursement of expenses of \$4,012.

The Company also granted 76,000 non-transferrable share purchase warrants (the “Agent Warrants”) to the Agent and members of its selling group. Each Agent Warrant will entitle the holder thereof to purchase one unit (an “Agent Unit”) at an exercise price of \$0.25 until the Expiry Date, subject to an early expiry date upon the occurrence of the Early Expiry Event. Each Agent Unit consists of one Common Share and one-half of one warrant (each whole warrant, an “Agent Unit Warrant”). Each Agent Unit Warrant will entitle the holder thereof to purchase one Common Share on the same terms and conditions as the Warrants. The fair value of the Agent Warrants was \$18,696, calculated using the Black-Scholes option pricing model. The amount was charged to share capital as non-cash share issue costs.

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

- On February 26, 2019, the Company completed a private placement of 12,000,000 units at a price of \$0.05 for gross proceeds of \$600,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at an exercise price of \$0.05 at any time prior to February 26, 2021. No value was assigned to the warrants. In connection with the private placement, the Company incurred \$25,000 in share issuance costs.
- On June 19, 2019, the Company cancelled the 200 shares issued to the incorporator on June 4, 2018.
- On November 14, 2019, the Company issued 500,000 common shares with a fair value of \$125,000 to Mike Stier, in settlement of 500,000 fully-vested restricted share rights granted to Mike Stier on the same date.
- On December 12, 2019, the Company issued 145,000 common shares in settlement of the \$36,250 loan payable.

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**11. SHARE CAPITAL - CONTINUED**

**Equity incentive plan**

The Company implemented an Equity Incentive Plan (the “EIP”) which provides for the grant to eligible directors and employees (including officers) of share options and Restricted Share Rights (“RSR”). The EIP also provides for the grant to eligible directors of Deferred Share Units (“DSU”) which the directors are entitled to redeem for 90 days following retirement or termination from the Board of the Company (the “Board”).

• **Share options**

The EIP authorizes the Board to grant options to eligible directors and employees (including officers). The number of options, the exercise price per option, the vesting period and any other terms and conditions of options granted from time to time pursuant to the EIP, are determined by the Board at the time of the grant, subject to the defined parameters of the EIP.

The changes in share options during the six months ended June 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2018	-	\$ -
Granted	500,000	\$ 0.25
Balance, December 31, 2019 and June 30, 2020	500,000	\$ 0.25

As at June 30, 2020, options outstanding are as follows:

Number of Options	Number of Options Exercisable	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life in Years
500,000	125,000	\$ 0.25	November 14, 2024	4.38

*During the six months ended June 30, 2020*

The Company did not grant any share options.

*During the year ended December 31, 2019*

- 500,000 share options of which 250,000 share options issued to Chris Cooper and 250,000 share options issued to Don Currie, with each option exercisable to acquire one common share of the Company at a price of \$0.25 per common share, for a period of five years; one quarter of the options will vest every six months, with the first quarter vesting on the grant date.

The estimated grant date fair value of the options granted during the year ended December 31, 2019 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	1.50%
Expected annual volatility	100%
Expected life (in years)	5.00
Expected dividend yield	0%
Grant date fair value per option (\$)	0.19
Share price at grant date (\$)	0.25

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**11. SHARE CAPITAL – CONTINUED**

**Equity incentive plan - continued**

• **RSR**

The EIP authorizes the Board to grant RSRs, in its sole and absolute discretion, to any eligible employee or director. Each RSR provides the recipient with the right to receive common shares of the Company as a discretionary payment in consideration of past services or as an incentive for future services. The terms including the vesting period of the RSRs are determined at the sole discretion of the Board.

On November 14, 2019, 500,000 fully-vested RSRs were granted in lieu of \$125,000 in consulting fees owing to Mike Stier. These RSRs were subsequently settled by the issuance of 500,000 common shares of the Company. During the period ended June 30, 2020, the Company did not issue any RSRs and there are no RSRs outstanding.

• **DSU**

The EIP authorizes the Board to grant DSUs, in its sole and absolute discretion in a lump sum amount or on regular intervals to eligible directors of the Company.

During the period ended June 30, 2020, the Company did not issue any DSUs and there are no DSUs outstanding.

**Warrants**

The changes in warrants during the six months ended June 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2018	-	\$ -
Granted <sup>(1)</sup>	12,000,000	0.25
Balance, December 31, 2019	12,000,000	0.25
Granted	19,879,636	0.36
<b>Balance, June 30, 2020</b>	<b>31,879,636</b>	<b>\$ 0.32</b>

(1) On June 19, 2020, the Company re-priced the share purchase warrants from an exercise price of \$0.05 per share purchase warrant to \$0.25 per share purchase warrant. As compensation to allow for the repricing of the share purchase warrants, the Company issued 12,000,000 additional share purchase warrants with a life of two years and an exercise price of \$0.40.

As at June 30, 2020, warrants outstanding are as follows:

Number of Warrants Outstanding	Number of Warrants Exercisable	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life in Years
12,000,000	12,000,000	\$ 0.25	February 21, 2021	0.65
4,000,000	4,000,000	0.20	April 30, 2022	1.83
2,384,436	2,384,436	0.40	April 30, 2022	1.83
1,495,200	1,495,200	0.40	April 30, 2022	1.83
12,000,000	12,000,000	0.40	June 19, 2022	1.97
<b>31,879,636</b>	<b>31,879,636</b>	<b>\$ 0.32</b>		<b>1.44</b>

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**11. SHARE CAPITAL - CONTINUED**

**Agent Warrants**

The changes in Agent Warrants during the six months ended June 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Agent Warrants	Weighted Average Exercise Price
Balance, December 31, 2019 and 2018	-	\$ -
Ganted	212,280	\$ 0.25
Balance, June 30, 2020	212,280	\$ 0.25

As at June 30, 2020, Agent Warrants outstanding are as follows:

Number of Agent Warrants	Number of Agent Warrants Exercisable	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life in Years
136,280	136,280	\$ 0.25	April 30, 2022	1.83
76,000	76,000	\$ 0.25	April 30, 2022	1.83
212,280	212,280	\$ 0.25		1.83

**12. SEGMENTED INFORMATION**

The Company operates in one reporting segment being the leasing real estate, providing services, leasing equipment and intangible assets to its License Holder. All revenue was earned in the United States. All long term, long lived assets are located in the United States.

**13. FINANCIAL INSTRUMENTS**

**Fair value**

The carrying values of cash, accrued interest receivable, accounts payable and accrued liabilities and due to related parties approximate their fair values due to the relatively short period to maturity of those financial instruments. The fair value of notes payable, lease obligations and lease receivables approximate fair value as they are discounted using a market rate of interest.

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: Inputs that are not based on observable market data.

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**13. FINANCIAL INSTRUMENTS - CONTINUED**

**Fair value – continued**

As at June 30, 2020 and December 31, 2019, the financial instrument recorded at fair value on the statement of financial position is cash which is measured using Level 1 of the fair value hierarchy.

Set out below are the Company's financial assets and financial liabilities by category:

	June 30, 2020	FVTPL \$	Amortized costs \$	FVTOCI \$
<b>ASSETS</b>				
Cash	614,405	614,405	-	-
Amounts receivable	45,189	-	45,189	-
Due from related party	878,539	-	878,539	-
Leases receivable	3,019,055	-	3,019,055	-
<b>LIABILITIES</b>				
Accounts payable	762,292	-	950,680	-
Lease obligations	2,998,119	-	2,998,119	-
Notes payable	2,477,166	-	2,477,166	-

	December 31, 2019	FVTPL \$	Amortized costs \$	FVTOCI \$
<b>ASSETS</b>				
Cash	80,150	80,150	-	-
Amounts receivable	80,134	-	80,134	-
<b>LIABILITIES</b>				
Accounts payable and accrual liabilities	587,798	-	587,798	-

• **Credit risk**

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Receivables are all due receivables from License Holder. Management feels there is minimal risk of non-collection since License Holder has been paying its obligations to the Company. The Company does not have significant credit risk with respect to customers. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments.

• **Liquidity risk**

The Company manages liquidity risk by maintaining adequate cash balances to meet short and long-term business requirements.

As at June 30, 2020, all of the Company's other financial liabilities except for lease obligations and notes payable have maturities less than one year. As at June 30, 2020, the Company had cash of \$617,405 and a working capital deficiency of \$344,092 (December 31, 2019 – working capital deficiency of \$396,764). Refer to note 1 for further discussion regarding going concern.

### **13. FINANCIAL INSTRUMENTS - CONTINUED**

#### **Fair value – continued**

- **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company holds cash in accounts with variable interest rates, and currently does not carry variable interest-bearing debt. It is management's opinion that the Company is not exposed to significant interest rate risk.

- **Foreign currency risk**

The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollar. The Company is subject to minimal currency risk, as the Company and its subsidiaries operate primarily in their respective functional currencies.

The Company has not entered into any foreign currency contracts to mitigate this risk.

### **14. SUBSEQUENT EVENTS**

Subsequent to June 30, 2020, the Company raised an additional \$1,187,815 CAD in gross proceeds from the exercise of 4,629,000 warrants and 29,220 agent warrants.

On of October 7, 2020, New Leaf USA signed off on an amendment to its services agreement with New Leaf Enterprises, Inc. whereby the monthly services will decrease from \$251,000 USD to \$150,000 USD per month effective May 1, 2020 through October 31, 2020.