



New Leaf Ventures, Inc.

**Consolidated Financial Statements
For the Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
New Leaf Ventures Inc.

Opinion

We have audited the accompanying consolidated financial statements of New Leaf Ventures Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company incurred a working capital deficiency of \$1,276,856 during the year ended December 31, 2020 and, as of that date, the Company's total deficit was \$7,807,458. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

In connection with our audit of the consolidated financial statements, our 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 our knowledge obtained in the audit, or otherwise appears to be materially misstated.



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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Erez Bahar.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

May 28, 2021

New Leaf Ventures, Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Current Assets			
Cash		\$ 136,553	\$ 80,150
Receivables		79,873	80,134
Due from related party	4,10	1,868,318	-
Prepaid balances	5	291,006	30,750
Current portion of lease receivables	4,11	242,657	-
Total Current Assets		\$ 2,618,407	\$ 191,034
Non-Current Assets			
Property and equipment	4,6	\$ 843,775	\$ -
Lease receivable	4,11	2,999,166	-
Other assets		25,792	-
Total Non-Current Assets		\$ 3,868,733	\$ -
TOTAL ASSETS		\$ 6,487,140	\$ 191,034
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	9	\$ 650,578	\$ 587,798
Due to related parties	10	195,673	-
Current portion of lease obligations	4,11	254,985	-
Notes payable to related parties	4,10(ii)	2,415,991	-
Derivative liability	4(ii)	362,758	-
Security deposit		15,278	-
Total Current Liabilities		\$ 3,895,263	\$ 587,798
Non-Current Liabilities			
Lease obligation	11	3,031,179	-
Total Non-Current Liabilities		\$ 3,031,179	\$ -
TOTAL LIABILITIES		\$ 6,926,442	\$ 587,798
SHAREHOLDERS' DEFICIENCY			
Share capital	12	\$ 7,087,003	\$ 736,251
Share-based payments reserve	13	138,339	34,338
Warrant reserve	12	38,075	-
Share subscriptions received		-	40,000
Foreign currency translation		104,739	-
Deficit		(7,807,458)	(1,207,353)
TOTAL SHAREHOLDERS' DEFICIENCY		\$ (439,302)	\$ (396,764)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY		\$ 6,487,140	\$ 191,034

Nature of operations and continuance of operations (note 1)
 Related party transactions (note 10)
 Subsequent events (note 17)

Approved on behalf of the Board by:

/s/ Robert Colwell
 Director

/s/ Chris Cooper
 Director

New Leaf Ventures, Inc.
Consolidated Statement of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes	For the years ended December 31,	
		2020	2019
Revenue	10(i)	\$ 2,050,990	\$ -
Expenses			
Amortization	7	\$ 331,299	\$ -
Communication		26,040	-
Consulting		122,507	267,066
Depreciation	6	110,259	-
Director fees	10	24,000	11,355
Marketing		985,080	-
Office		296,690	798
Professional fees		480,882	840,365
Regulatory and filing fees		33,036	14,777
Research and development		79,926	-
Share-based compensation	13	104,001	34,338
Wages and salaries	10(iii)	2,078,552	-
		\$ (4,672,272)	\$ (1,168,699)
Other Expenses			
Interest income	11	\$ 256,623	\$ -
Accretion expense	10(ii)	(180,547)	-
Bad debt expense		(48,390)	-
Foreign exchange		(21,163)	(2,404)
Gain on forgiveness of accounts payable		25,923	-
Gain / (loss) on remeasurement of derivative	4(ii)	(9,958)	-
Impairment loss	8	(3,780,891)	-
Interest expense	11	(220,420)	-
Net Loss for the Year		\$ (6,600,105)	\$ (1,171,103)
Other Comprehensive Loss			
Items that may be subsequently reclassified to profit and loss			
Foreign currency translation adjustment		\$ (104,739)	\$ -
Total Comprehensive Loss for the Year		\$ (6,495,366)	\$ (1,171,103)
Basic and diluted loss per common share		\$ 0.24	\$ 0.11
Weighted average number of common shares outstanding (basic and diluted)		27,917,810	10,232,896

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

New Leaf Ventures, Inc.
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share Subscription Received	Stock Options Reserve	Warrant Reserve	Foreign Currency Translation	Accumulated Deficit	Total
Balance - December 31, 2018	200	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ (36,250)	\$ (36,249)
Cancellation of incorporator's shares	(200)	-	-	-	-	-	-	-
Shares issued for cash - private placement	12,000,000	600,000	-	-	-	-	-	600,000
Share issue costs	-	(25,000)	-	-	-	-	-	(25,000)
Shares issued for restricted share rights	500,000	125,000	-	-	-	-	-	125,000
Settlement of the loan payable	145,000	36,250	-	-	-	-	-	36,250
Subscription received in advance	-	-	40,000	-	-	-	-	40,000
Share-based payments	-	-	-	34,338	-	-	-	34,338
Net loss for the year	-	-	-	-	-	-	(1,171,103)	(1,171,103)
Balance - December 31, 2019	12,645,000	\$ 736,251	\$ 40,000	\$ 34,338	\$ -	\$ -	\$ (1,207,353)	\$ (396,764)
Shares issued for cash - private placement	7,759,271	1,939,817	(40,000)	-	-	-	-	1,899,817
Shares issued upon exercise of warrants and agent units	6,034,220	1,535,812	-	-	(3,997)	-	-	1,531,815
Share issue costs	-	(289,546)	-	-	42,072	-	-	(247,474)
Shares issued on Acquisition Transaction	9,000,000	2,250,000	-	-	-	-	-	2,250,000
Shares issued as signing bonus to New Leaf USA executives	3,658,676	914,669	-	-	-	-	-	914,669
Share-based payments	-	-	-	104,001	-	-	-	104,001
Net loss for the period	-	-	-	-	-	104,739	(6,600,105)	(6,495,366)
Balance - December 31, 2020	39,097,167	\$ 7,087,003	\$ -	\$ 138,339	\$ 38,075	\$ 104,739	\$ (7,807,458)	\$ (439,302)

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

New Leaf Ventures, Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

		For the year ended December 31,	
	Notes	2020	2019
		\$	\$
OPERATING ACTIVITIES			
Net loss for the year		\$ (6,600,105)	\$ (1,171,103)
Non-cash items:			
Interest income	11	\$ (256,623)	\$ -
Interest expense	11	220,420	-
Amortization of intangible assets	7	331,299	-
Accretion expense	10(ii)	180,547	-
Depreciation of equipment	6	110,259	-
Bad debt expense		48,390	-
Share-based compensation	13	104,001	34,338
Shares issued for restricted share rights		-	125,000
Wages and salaries paid in shares	10(iii)	914,669	-
Goodwill impairment	8	3,780,891	-
Gain / (loss) on remeasurement of derivative	4(ii)	9,958	-
Changes in non-cash working capital items:			
Accounts receivable		\$ (48,129)	\$ (80,134)
Prepays		(291,006)	(30,750)
Accounts payable and accrued liabilities		89,631	587,798
Due from related party	10	(1,007,655)	-
Due to related party	10	(217,588)	-
Security deposit		15,278	-
Cash Flow used in Operating Activities		\$ (2,615,763)	\$ (534,851)
INVESTING ACTIVITIES			
Acquisition of business, net of cash acquired	4	\$ 3	\$ -
Acquisition of property and equipment	6	(129,047)	-
Payment of lease obligations	11	(359,675)	-
Cash Flow used in Investing Activities		\$ (488,719)	\$ -
FINANCING ACTIVITIES			
Proceeds from share issuance	12	\$ 1,683,103	\$ 600,000
Proceeds from exercise of warrants	12	1,531,805	(25,000)
Repayment of note payable	10(ii)	(99,908)	40,000
Cash Flow from Financing Activities		\$ 3,115,000	\$ 615,000
Effect of foreign exchange rate fluctuation		45,885	-
Increase in cash in the year		56,403	80,149
Cash – beginning of the year		\$ 80,150	\$ 1
Cash – end of the year		\$ 136,553	\$ 80,150

Supplemental cash flow information (Note 16)

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

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

New Leaf Ventures Inc. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on June 4, 2018. 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 April 30, 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 New Leaf Enterprises, Inc., a Washington-based Tier 3 Producer/Processor focused on industrial-scale agronomy, processing, packaging, marketing and distributing cannabis and cannabis related products (the “License Holder”). The License Holder is considered a related party; refer to Note 4 for details on the Acquisition Transaction and Note 10 for details on the related party nature and transactions with the License Holder during the year ended December 31, 2020.

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. The Company is listed on the Canadian Securities Exchange (the “CSE”) under the ticker symbol “NLV.CN” and on the OTCQB, part of the OTC Markets Group, under the ticker “NLVVF”.

Going Concern

These 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 its liabilities in the normal course of business for the foreseeable future. The Company’s continuation as a going concern is dependent upon 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 revenues and through further equity financings. As at December 31, 2020 the Company had a working capital deficiency of \$1,276,856 and an accumulated deficit of \$7,807,458. These items may cast a significant doubt on the Company’s ability to continue as a going concern. The consolidated 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.

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, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE

Basis of presentation and statement of compliance

These consolidated financial statements, including comparatives, 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 financial statements, including interpretations of the IFRS Interpretations Committee (“IFRIC”).

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The significant accounting policies, as disclosed, have been applied consistently to all periods presented in these consolidated financial statements.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 28, 2021.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2020. A subsidiary is an entity controlled by the Company. Specifically, the Company controls an investee if, and only if, the Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary. All intercompany balances and transactions are eliminated in full upon consolidation. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent company and to the non-controlling interests.

New Leaf Ventures, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

The entities contained in the consolidated financial statements are as follows:

Entity Name	Principal activity	Place of business and operations	Functional currency	Equity percentage
New Leaf Ventures, Inc. (the "Company")	Parent company	Canada	CAD \$	n/a
New Leaf USA, Inc. ("New Leaf USA")	Holding company for US Entities	United States	USD \$	100%
New Leaf Real Estate, LLC ("RealEstateCo")	Real property leasing	United States	USD \$	100%
New Leaf Equipment, LLC ("EquipmentCo")	Equipment leasing	United States	USD \$	100%
New Leaf IP, LLC ("IPCo")	Intellectual property licensing	United States	USD \$	100%
New Leaf Services LLC ("ServicesCo")	Management services	United States	USD \$	100%
New Leaf Hemp Company LLC ("HempCo")	Inactive	United States	USD \$	100%

Summary of significant accounting policies

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

a) Cash

Cash consists of cash on hand and are subject to an insignificant risk of change in value

b) Foreign currencies

Functional and reporting currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company is the Canadian dollar and the functional currency of all of the Company's subsidiaries is the U.S. dollar.

On consolidation, the assets and liabilities of the subsidiaries are translated into Canadian dollars at the rate of exchange prevailing at the reporting date. Expense items are translated at the average rate of the exchange for the year. Unrealized translation gains and losses are recorded as cumulative translation adjustments, which are included in other foreign currency translation reserve which is a component of shareholders' deficiency.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

Foreign currency transactions

Transactions in currencies other than the Company's or subsidiaries' functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing exchange rate at the reporting date. Non-monetary assets and liabilities, and revenue and expense items denominated in foreign currencies are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange differences are recognized in profit or loss in the period in which they arise

c) Property and equipment

Property and equipment is recorded at cost, less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Asset	Life
Production equipment	3 - 15 years
Leasehold improvements	7 years

The estimated useful lives and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized 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 the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Repairs and maintenance costs that do not improve or extend productive life are recognized in profit or loss in the period in which the costs are incurred.

d) Business combination

Acquisitions of subsidiaries and assets that meet the definition of a business under IFRS are accounted for using the acquisition method. The consideration transferred in the acquisition is measured at acquisition date fair value. The identifiable assets acquired and liabilities assumed that meet the conditions for recognition under IFRS 3 Business Combinations are recognized at their fair values at the acquisition date. Any excess consideration over the fair value of the identifiable net assets is recognized as goodwill. Acquisition-related costs, other than those associated with the issuance of debt or equity, are recognized in profit or loss as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Company obtains complete information about facts and circumstances that existed as of the acquisition date up to a maximum of one year.

e) Goodwill

Goodwill, representing the excess of the consideration paid for entities acquired over the fair values of the assets acquired and liabilities assumed, is initially measured at cost and is not amortized. After initial recognition, goodwill is measured at cost less any accumulated impairment losses and is tested annually for impairment or when there are indicators of impairment. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units ("CGU") or group of CGUs that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost and intangible assets acquired in a business combination are recognized at fair value at the date of acquisition. Intangible assets relate to licensing and leasing contracts acquired. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense for finite life intangible assets is recognized in profit or loss. Intangible assets with indefinite lives are not amortized, however they are tested for impairment annually or more frequently when circumstances indicate that the carrying value may not be recoverable.

Intangible assets are amortized over their estimated useful lives, on a straight-line basis, as follows:

Asset	Life
Licensing and Leasing Contracts	6 months

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

g) Impairment of non-financial assets

The Company assesses the recoverable amount of non-financial assets, at each reporting date, for indicators of impairment. If any indicators exist, the Company estimates the recoverable amount for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount which is the higher of fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining fair value less costs of disposal, recent market transactions are considered or an appropriate valuation model is used. The Company bases its impairment calculation on most recent budgets and/or forecast calculations, which are prepared for the Company's CGUs or group of CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

An impairment loss is recognized in the statement of profit or loss if the carrying amount of an asset or CGU exceeds its recoverable amount. A previously recognized impairment loss is reversed when there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited to its recoverable amount and cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU or group of CGUs is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

h) Leases

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use ("ROU") of an underlying asset for a period of time in exchange for consideration.

As Lessee

Leases are recognized as a lease liability and a corresponding ROU asset at the date on which the leased asset is available for use by the Company. Liabilities and assets arising from a lease are initially measured on a present value basis. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate when the rate

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

implicit in the lease is not readily available. The corresponding right-of-use assets are measured at the amount equal to the lease liability.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

The ROU asset, initially measured at an amount equal to the corresponding lease liability, is depreciated on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses.

As Lessor

Leases for which the Company is a lessor, are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

i) Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation, as a result of a past event; it is probable that the Company will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured using managements best estimate as to the outcomes, based on known facts, risks and uncertainties at the reporting date.

j) Revenue recognition

The Company recognizes revenue from the licensing of its intellectual property, leasing of its equipment, and provision of management services to the License Holder.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

Revenue is recognized in a manner that depicts the transfer of promised services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The steps outlined above also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Under IFRS 15, contract assets are presented separately from contract liabilities.

Revenue comprises the fair value of consideration received or receivable for the provision of services in the ordinary course of the Company's activities. Revenue is shown net of returns and discounts. Revenue is recognized when reasonableness of collection is assured.

k) Share-based payments

Stock Options

The Company grants stock options to employees, directors, and officers. Stock options granted to employees are measured at fair value at the grant date and recognized as compensation expense over the vesting period. Stock options granted to non-employees are measured at the fair value of the goods or services received except where the fair value cannot be estimated, in which case it is measured at the fair value of the equity instrument granted. The fair value of the share-based compensation to non-employees is periodically remeasured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with stock options.

The fair value of options is determined using the Black-Scholes option pricing model which incorporates all the market vesting conditions. The number of 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.

Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net loss such that the cumulative expense reflects the revised estimate.

Upon exercise of stock options, consideration received on exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

Restricted Share Rights

The Company maintains a Restricted Share Rights plan pursuant to which certain of our officers or employees are eligible to receive grants of restricted share rights (“RSRs”). RSRs vest based on terms determined at the sole discretion of the Board. The Company issues new shares from treasury upon the redemption of an RSR. RSRs are measured at fair value based on the closing price of our common shares for the day preceding the date of the grant and will be expenses to stock-based compensation expense over the vesting period.

Deferred Share Units

The Company maintains a Deferred Share Unit plan pursuant to which certain of our officers are eligible to receive grants of Deferred Share Units (“DSUs”). The cost of the DSUs is measured initially at fair value based on the closing price of the Company’s common shares preceding the day the DSUs are granted. The cost of a DSU is recognized in the consolidated statement of loss and comprehensive loss as a share-based compensation expense.

l) Taxation

Income tax expense of the Company comprises current and deferred taxes. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the year end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded using the asset-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 the initial recognition of assets and liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiary to the extent that they will not likely reverse in the foreseeable future. The amount of deferred tax is based on the expected manner of realization or settlement of carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

m) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. The weighted average number of common shares outstanding is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all share options with exercise prices below the average market price for the year. To the extent that the Company incurs losses, all potential shares are considered to be anti-dilutive and no adjustment is made.

n) Financial instruments

Financial Assets

The Company uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income, or (iii) at fair value through profit and loss.

(i) Amortized Cost:

Financial assets classified and measured at amortized cost are those assets whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(ii) Fair value through other comprehensive income ("FVTOCI"):

Financial assets classified and subsequently measured at FVTOCI are those assets whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

The classification includes certain equity instruments where an irrevocable election was made to classify the equity instruments as FVTOCI. Equity investments require a designation, on an instrument-by-instrument basis, between recording both unrealized and realized gains and losses either through (i) other comprehensive income ("OCI") with no recycling to profit and loss or (ii) profit and loss. Dividends from these instruments are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

(iii) Fair value through profit or loss ("FVTPL"):

Financial assets classified and subsequently measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when the rights to receive cash flows from the asset have expired. When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Impairment of financial assets

The Company uses an expected credit loss impairment model on financial assets measured at amortized cost where expected future credit losses are provided for. For receivables (excluding taxes receivables), the Company utilized a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of receivables are reduced for any expected credit losses through an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. At the point where the Company is satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off.

Financial Liabilities

Financial liabilities are generally classified at measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it meets the definition of held-for-trading or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense are recognized in profit or loss. Other financial liabilities are measured at fair value at initial recognition and subsequently measured at amortized cost using the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

Financial Liabilities may also includes derivative financial instruments that are entered into by the Company that are not designated as hedging instruments as defined by IFRS 9 Financial Instruments. Embedded derivatives, if accounted separately, are classified as FVTPL and any gains and losses are recognized through the consolidated Statement of Loss and Comprehensive Loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability at its fair value based on the modified term. Upon derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in the consolidated Statement of Loss and Comprehensive Loss.

o) Related party balances

Parties are considered to be related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Standards Adopted During the Year

Definition of A Business (Amendments to IFRS 3)

In October 2018, the IASB issued Definition of a Business (Amendments to IFRS 3 Business Combination) which: (a) clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; (b) narrows the definition of a business and of outputs by focusing on goods and services provided to customers; and (c) removes certain assessments and adds guidance and illustrative examples. The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Company adopted the standard effective January 1, 2020 and was applied on the acquisition of New Leaf USA (note 4).

Future changes in accounting policies

The following standards are not yet effective for the year ending December 31, 2020, and have not been applied in the preparation of the consolidated financial statements:

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify the classification of liabilities as current or non-current. On July 15, 2020 the IASB issued an amendment to defer the effective date by one year. The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. For the purposes of non-current classification, the amendments removed the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must have substance and exist at the end of the reporting period.

The amendments also clarify how a company classifies a liability that includes a counterparty conversion option. The amendments state that:

- settlement of a liability includes transferring a company's own equity instruments to the counterparty, and
- when classifying liabilities as current or non-current a company can ignore only those conversion options that are recognised as equity.

The adoption of this new standard is not expected to have any impact on the amounts recognized in the Company's consolidated financial statements.

Critical accounting estimates and judgements

The preparation of consolidated 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 consolidated 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 consolidated financial statements is as follows:

Judgments

Judgment is used in situations when there is a choice and/or assessment required by management. The following are critical judgments apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

Going concern

Determining if the Company has the ability to continue as a going concern is dependent on its ability to secure debt and equity financing, and to achieve profitable operations. Certain judgements were made when determining if and when the Company will secure debt and equity financing and achieve profitable operations. Refer to Note 1 for further details.

Determination of CGUs

For the purposes of assessing impairment of goodwill and non-financial assets, the Company must identify CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgment. The composition of a CGU can directly impact the recoverability of non-financial assets included within the CGU. Management has determined that the Company has one CGU comprising all the entities within the consolidated New Leaf Group.

Lease term

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

Business Combination vs Asset Acquisition

The Company has applied judgement in determining whether the acquisition of New Leaf USA and its subsidiaries constitutes a business combination or an asset acquisition. The assessment of whether the transaction should be accounted for as a business combination or asset acquisition has significant impact to the initial measurement and valuation of net assets acquired and resulting recognition of goodwill.

Taxation

Calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates, and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

Estimates

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company's financial results where a different estimate or assumption is used. The significant areas of estimation uncertainty are:

Expected credit losses

The Company recognizes an amount equal to the lifetime expected credit loss ("ECL") on receivables and amounts due from related parties for which there has been a significant increase in credit risk since initial recognition. Loss allowances are measured based on historical experience and forecasted economic conditions. The amount of ECL is sensitive to changes in circumstances of forecast economic conditions.

Useful lives of property and equipment and intangible assets

Depreciation of property and equipment and amortization of intangible assets is dependent upon estimates of useful lives and residual value which are determined through the use of assumptions. Estimates of residual value and useful lives are based on data and information from various sources including industry practice and historic experience. Although management believes the estimated useful lives of the Company's property and equipment and intangible assets are reasonable, it is possible that changes in estimates could occur, which may affect the expected useful lives and salvage values of the property and equipment and intangible assets.

Impairment of goodwill and other non-financial assets

Determining whether an impairment has occurred requires the valuation of the respective assets or CGU's, which the Company estimate the recoverable amount using a discounted cash flow method. The key estimates and assumptions used are revenue growth, gross margin, and discount rate. These estimates are based on past experience and management's expectations of future changes in the market and forecasted growth initiatives.

A previously recognized impairment loss of non-finance assets is reversed when there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited to its recoverable amount and cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss. Impairment of goodwill is never reversed.

Share-based payments

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. In estimating the fair value, management is required to make certain assumptions and estimates such as the fair value of the underlying share, the expected life of options, volatility of the Company's future share price,

2. SIGNIFICANT ACCOUNTING POLICIES, BASIS OF PRESENTATION, STATEMENT OF COMPLIANCE, CONTINUED

risk-free rate, future dividend yields and estimated forfeitures. Changes in assumptions used to estimate fair value could result in different outcomes.

Derivative liability

The Company uses the Black-Scholes option pricing model to determine the fair value of derivative liability associated with the performance warrants granted as part of the Acquisition Transaction (see Note 4). In estimating the fair value, management is required to make certain assumptions and estimates such as the fair value of the underlying share, the expected life of the performance warrants, volatility of the Company's future share price, risk-free rate, future dividend yields and estimated forfeitures. Changes in assumptions used to estimate fair value could result in different outcomes.

Lease – Discount Rate

In instances where the Company cannot readily determine the interest rate implicit in a lease, it uses its incremental borrowing rate (“IBR”) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company ‘would have to pay’, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as interest rate spreads for credit and other risks).

Purchase price allocations

The consideration transferred and acquired assets and assumed liabilities are recognized at fair value on the date the Company effectively obtains control. The measurement of each business combination is based on the information available on the acquisition date. The estimate of fair value of the consideration transferred and acquired intangible assets (including goodwill), property and equipment, other assets and the liabilities assumed are based on estimates and assumptions. The measurement is largely based on projected cash flows, discount rates and market conditions at the date of acquisition.

3. SEGMENT REPORTING

The Company operates in one operating segment. For the purpose of segment reporting, the Company's Chief Executive Officer (“CEO”) is the Chief Operating Decision Maker. The determination of the Company's operating segment is based on its organizational structure and how the information is reported to CEO on a regular basis. During the year ended December 31, 2020, all the revenues from the Company were generated through intellectual property licensing, equipment leasing, and provision of management services to a single customer, the License Holder, who is located in the United States.

New Leaf Ventures, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
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3. SEGMENT REPORTING CONTINUED

The Company's non-current assets by country are as follows:

	December 31, 2020	December 31, 2019
Canada	\$ -	\$ -
United States	3,868,733	-
Total non-current assets	\$ 3,868,733	\$ -

4. ACQUISITION OF NEW LEAF USA, INC.

On April 30, 2020, the Company completed the 100% acquisition of New Leaf USA, Inc. and all of its wholly-owned subsidiaries. The acquisition provides the Company with immediate strategic access and footprint to the US cannabis market, specifically in the state of Washington. With the acquisition, the Company now has the ability to provide turnkey solutions to other licensed cannabis operators in the state of Washington. This is the first step in realizing management's vision for the Company to manage and invest in advanced stage operations in the North American Cannabis sector. In consideration for the acquisition, the Company issued the following:

- Issued 9,000,000 common 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 if 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 10 for additional details.

The following table shows the preliminary and final 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:

New Leaf Ventures, Inc.
Notes to the Financial Statements
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4. ACQUISITION OF NEW LEAF USA, INC. CONTINUED

	Preliminary (i)	Measurement period adjustments	Final
Consideration transferred:			
Fair value of 9,000,000 common shares issued	\$ 2,250,000	\$ -	\$ 2,250,000
Fair value of contingent consideration (ii)	649,440	(296,640)	352,800
	\$ 2,899,440	\$ (296,640)	\$ 2,602,800
Fair value of assets and liabilities recognized:			
Cash	\$ 3	\$ -	\$ 3
Related party receivable (note 10)	335,175	249,380	584,555
Lease receivable	3,015,981	679,605	3,695,586
Equipment	1,015,214	(118,925)	896,289
Intangible assets	1,676,445	(1,330,497)	345,948
Lease deposits	76,864	(48,685)	28,179
Accounts payable	(49,932)	(370,402)	(420,334)
Finance lease obligations	(3,015,981)	(737,015)	(3,752,996)
Notes payable	(2,466,380)	(88,941)	(2,555,321)
Deferred gain	(225,279)	225,279	-
Prepaid deposits	(16,692)	16,692	-
Fair value of net assets acquired (iii)	\$ 345,418	\$ (1,523,509)	\$ (1,178,091)
Goodwill	\$ 2,554,022	\$ 1,226,869	\$ 3,780,891

- (i) The preliminary balances are as previously reported in the unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2020.
- (ii) The warrants were valued using the Black-Scholes Option Pricing model (note 12) and adjusted for the probability that revenue targets would be met over the vesting period. The Performance Warrants were accounted for under IFRS 9 Financial Instruments as a derivative financial liability as the instrument had an option to convert the Performance Warrants into shares of the Company for no consideration and which would result in a variable number of the Company's shares being issued on exercise (see note 12). The Performance Warrants were subsequently re-measured at December 31, 2020 with a resulting loss on re-measurement of \$9,958 recognized in profit and loss for the period ended December 31, 2020.
- (iii) There were no deferred tax liabilities identified as part of the Acquisition Transaction. Deferred tax assets were identified but were not recognized as its recoverability was not considered probable.

The intangibles recognized on the acquisition relate to existing contracts at acquisition date for equipment leasing and intellectual property licensing, as well as management services. New Leaf USA leases intellectual property ("IP agreement"), including, brand names and know-how specific to operations and management of cannabis production and processing. The License Holder pays, to the Company, an annual exclusivity fee of USD\$100,000 and the greater of \$1.07 per each unit sold or a quarterly license fee of USD\$150,000 for a period of six months, expiring October 1, 2020. New Leaf USA also leases cannabis production and processing equipment for a monthly leasing fee of USD\$6,000 per month. Both the equipment and IP agreement were extended by the License Holder for another six months on October 1, 2020.

New Leaf Ventures, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2020 and 2019
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4. ACQUISITION OF NEW LEAF USA, INC. CONTINUED

New Leaf USA provides various management services to the License Holder including office administration, human resource and staffing, marketing, and IT. For the provision of these services the License Holder pays a monthly services fee of USD\$100,000 a month. The management service agreement has a term of six months but automatically renews for an additional six months for up to four additional six-month renewal terms (from effective date August 1, 2019) unless sooner terminated. At the time of acquisition, the service agreement had three remaining six-month renewal terms available.

The goodwill recognized from the acquisition is attributable to synergies expected from integrating New Leaf USA into the Company's existing business. Another component of goodwill includes non-separable intangibles assets acquired, including know-how specific to operations and management of cannabis production and processing. The goodwill acquired is not deductible for tax purposes. Due to the timing of the acquisition, the fair values assigned to intangible assets, goodwill and the deferred income tax liability were measured on a provisional basis and have been revised by the Company as additional information was received during the measurement period and have been finalized as of December 31, 2020. Revenue of \$2,050,990 and net loss of \$262,216 from the acquired operations are included in the consolidated statement of loss and comprehensive loss from the date of acquisition to December 31, 2020.

5. PREPAID BALANCES

	December 31, 2020	December 31, 2019
Prepaid marketing expense	\$ 256,060	\$ -
Prepaid accounting expense	30,000	-
Other prepaids	4,946	30,750
Total prepaid balances	\$ 291,006	\$ 30,750

6. PROPERTY AND EQUIPMENT

	Production Equipment	Leasehold Improvements	Total
Cost			
As at December 31, 2019 and 2018	\$ -	\$ -	\$ -
Acquisition transaction (note 4)	896,289	-	896,289
Additions	121,968	7,079	129,047
Currency translation adjustment	(75,904)	-	(75,904)
As at December 31, 2020	\$ 942,353	\$ 7,079	\$ 949,432
Accumulated Depreciation			
As at December 31, 2019 and 2018	\$ -	\$ -	\$ -
Additions	110,259	-	110,259
Currency translation adjustment	(4,602)	-	(4,602)
As at December 31, 2020	\$ 105,657	\$ -	\$ 105,657
Carrying Amount			
As at December 31, 2019	\$ -	\$ -	\$ -
As at December 31, 2020	\$ 836,696	\$ 7,079	\$ 843,775

6. PROPERTY AND EQUIPMENT CONTINUED

No depreciation has been taken on leasehold improvements as the leasehold work was still in progress for the entire duration of the year-end December 31, 2020.

7. INTANGIBLE ASSETS

	Service and Licensing Contracts
Cost	
As at December 31, 2019 and 2018	\$ -
Acquisition transaction (note 4)	345,948
Currency translation adjustment	(29,298)
As at December 31, 2020	\$ 316,650
Accumulated Depreciation	
As at December 31, 2019 and 2018	\$ -
Depreciation charge	331,299
Currency translation adjustment	(14,649)
As at December 31, 2020	\$ 316,650
Carrying Amount	
As at December 31, 2019	\$ -
As at December 31, 2020	\$ -

8. GOODWILL

Balance as at December 31, 2019	\$ -
Acquisition transaction (note 4)	3,780,891
Impairment charge	(3,780,891)
Balance as at December 31, 2020	\$ -

The carrying amount of the Company's goodwill is tested at least annually for impairment on December 31, 2020. On each quarter end date, the Company assesses whether a triggering event has occurred, and it may be necessary to assess if an impairment might exist for a cash generating unit ("CGU") before the next annual testing date. The Company considers negative operating cash flows from CGUs, changes in internal strategic expansion plans, negative developments in the U.S. cannabis regulatory environment at the federal, state and local levels among other factors, as part of this assessment during each reporting period. The annual test for impairment involves determining the recoverable amount of the CGU to which

8. GOODWILL CONTINUED

goodwill and other intangibles are allocated and comparing this to the carrying value of the CGU. The Company designates the entire consolidated group as a single CGU as this represents the lowest level at which management monitors cash flows. Consequently, all the goodwill was allocated to this CGU. The recoverable amount of the CGU was determined based on a value in use calculation using the following key assumptions set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

- 5 year pre-tax cash flow projections expected to be generated based on actual historical operating performance in conjunction with anticipated annual average growth rate of 15% and a terminal growth rate of 2%. The terminal growth rate used is based on historical and projected consumer inflation, historical and projected economic indicators, and projected industry growth.
- Forecasted EBITDA was estimated taking into account past experience, and revenue growth projections based on industry data and the Company's strategic plan.
- Discount rate represents the current market assessment of the risks specific the Company's CGU, taking into consideration the time value and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate is derived from the Company's weighted average cost of capital ("WACC") at 15%.

As a result of expected negative operating cashflows over the next few years, the carrying value of the Company's total net assets exceeded the Company's value-in-use as at December 31, 2020. For the year ended December 31, 2020, the Company recorded an impairment loss of \$3,780,891 to reduce goodwill to \$nil.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
Trade payables	\$ 473,293	\$ 587,798
Accrued liabilities	177,285	-
Total	\$ 650,578	\$ 587,798

10. RELATED PARTY TRANSACTIONS

Related party transactions consist of monthly transactions with the License Holder, who is considered a related party due to sharing common executives and key management with the Company. Key management include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole.

(i) Transactions with the License Holder

10. RELATED PARTY TRANSACTIONS CONTINUED

During the year ended December 31, 2020 the Company recognized the following revenues from the License Holder:

Equipment leasing revenue	\$	63,941
Service fee revenues		1,398,705
Intellectual property licensing revenues		588,344
Total revenues from License Holder	\$	2,050,990

In addition, the Company also incurred the following transactions with the License Holder during the year ended December 31, 2020:

- (i) Bad debt expense of \$48,390
- (ii) Interest income on service fee revenues of \$27,616
- (iii) Interest income on lease receivables of \$229,007 (Note 11)
- (iv) Accretion expense on notes payables of \$180,547 (Note 10(ii))

As at December 31, 2020, there was a balance of \$1,868,318 due from the License Holder to the Company related to the provision of services during the year ended December 31, 2020. In addition, there was a balance of \$195,673 due from the Company to the License Holder for reimbursable lease operating costs.

As at December 31, 2020, there was a balance of \$3,241,823 due from the License Holder to the Company related to the lease receivable. In addition, there was a balance of \$15,275 due from the Company to the License Holder for a refundable security deposit.

As at December 31, 2020, there was a notes payable balance of \$2,415,991 due to the License Holder. The notes were recorded at fair value at initial recognition by measuring the present-value of future note payments discounted at 12%. The notes are unsecured and bear a coupon interest rate of 2.72% per annum for a period of 27 months with a maturity date of August 1, 2022. The notes are to be repaid in eight, equal, quarterly instalments of US\$236,269. As of December 31, 2020, the notes payables were considered in default due to missing of instalment payments. Subsequent to year end, on May 10, 2021, the License Holder issued a waiver of default to New Leaf USA – see note 17.

A continuity of notes payable for the year ended December 31, 2020 is as follows:

Balance, December 31, 2019	\$	-
Acquisition transaction		2,555,321
Accretion expense		180,547
Payment		(99,908)
Currency translation adjustment		(219,969)
Balance, December 31, 2020	\$	2,415,991
Current	\$	2,415,991
Long-term	\$	-

10. RELATED PARTY TRANSACTIONS CONTINUED

Balances due on the notes payables, including interest, for the next five years and thereafter are as follows:

2021	\$	1,709,418
2022		902,454
2023		-
2024		-
2025		-
Thereafter		-
Total	\$	2,611,872

(ii) Transactions with other related parties

During the year ended December 31, 2020 the Company had the following transactions with a company controlled by a director of the Company:

- (i) Interest expense on lease obligations of \$151,101 (Note 11)

As at December 31, 2020, there was a balance of \$25,792 due from the related party to the Company related to the prepaid rent. In addition, there was a balance of \$2,256,571 due from the Company to the related party related to the lease obligations.

(iii) Key Personnel Compensation

	December 31, 2020	December 31, 2019
Directors' fees	\$ 24,000	\$ 11,355
Consulting fees ⁽¹⁾	88,000	131,000
Share-based payments ⁽²⁾	63,583	34,338
Wages and salaries ⁽³⁾	1,123,706	-
Total	\$ 1,299,289	\$ 176,693

⁽¹⁾ 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

⁽²⁾ Share-based payments related to share purchase options issued to directors in 2020 and 2019.

⁽³⁾ 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 \$209,037 (US\$156,833) in salaries from May 1, 2020 to December 31, 2020.

During the year ended December 31, 2019, the Company incurred consulting fees of \$6,000 to AMBE Holdings Ltd. which is controlled by a director of the Company.

The balances due to the Company's directors and officer included in accounts payables and accrued liabilities were \$nil as at December 31, 2020 (December 31, 2019 - \$6,000).

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11. LEASES

On April 30, 2020, as part of the Acquisition Transaction (note 4), the Company acquired two building leases (the “Head Leases”) currently housing an integrated cultivation facility in Seattle, Washington. Building Lease #1 is between RealEstateCo and a Washington based Company which is owned by a director of the Company. Building Lease #2 is between RealEstateCo and an arms-length Washington based Company. The Head Leases includes an option to extend for a further 5 years until May 31, 2028. Subsequently, the Company subleased the combined building space to the License Holder, with an option to extend for an additional 5 years until May 31, 2028 (the sub-lease). Under IFRS 16, the Company classified the sub-leases as a finance lease because it is for the whole of the remaining term of the Head Leases.

There were no other leases identified, including short-term or low value leases, during the course of the year-ended December 31, 2020 and 2019.

The Company as a Lessee

The facility is subleased to the License Holder with the Company maintaining the lease obligation on the Head Leases. The Company used 9.5% 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:

Lease Obligation	
Balance as at December 31, 2019 and 2018	\$ -
Acquisition transaction (note 4)	3,752,996
Interest expense	220,420
Payment of lease obligations	(359,675)
Foreign exchange impact	(327,577)
Balance as at December 31, 2020	\$ 3,286,164

Minimum lease payments are as follows:

Minimum lease payments for each fiscal year:	
2021	\$ 552,097
2022	570,533
2023(i)	598,805
2024(i)	625,499
2025(i)	646,843
2026 and thereafter(i)	1,629,076
Total	\$ 4,622,853
Amount representing interest	(1,336,689)
Less: Current lease obligation	(254,985)
Long-term lease obligation	\$ 3,031,179

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11. LEASES CONTINUED

- (l) The Company intends to exercise the extension option on the leases which will push the Head Lease end date out to May 31, 2028. However, the Company is only contractually obligated to remit Head Lease payments to May 31, 2023. The minimum Head Lease payments, as detailed in the above table, from May 31, 2023 onward illustrate the potential commitments upon exercise of the extension option.

The Company as a Lessor

Lease Receivable	
Balance as at December 31, 2019 and 2018	\$ -
Acquisition transaction (note 4)	3,695,586
Interest income	229,007
Accrued sublease payments receivable	(359,675)
Foreign exchange impact	(323,095)
Balance as at December 31, 2020	\$ 3,241,823

The Company fair-valued the acquired lease receivables by present valuing the expected lease receivable payments over the life of the lease. The Company use an interest rate of 10.7% and 9.91%; the interest rate implicit in the lease.

Minimum sublease payments receivable are as follows:

Minimum lease payments receivable for each fiscal year:	
2021	\$ 552,095
2022	570,533
2023(i)	598,805
2024(i)	625,499
2025(i)	646,843
2026 and thereafter(i)	1,654,869
Total	\$ 4,648,644
Amount representing interest	(1,406,821)
Less: Current lease receivable	(242,657)
Long-term lease receivable	\$ 2,999,166

- (l) The Company expects that the sublease tenant will exercise the extension option on the sublease, which will push the sublease end date out to May 31, 2028. However, the Company only has the contractual right to receive sublease payments up to May 31, 2023. The minimum sublease payments receivable, as detailed in the above table, from May 31, 2023 onward illustrate the potential commitments upon exercise of the extension option.

12. SHARE CAPITAL

Authorized share capital

As at December 31, 2020 and 2019, the Company is authorized to issue an unlimited number of preferred shares and common shares without par value.

As at December 31, 2020, 12,126,755 (December 31, 2019 – nil) total common shares outstanding were held in escrow.

Issued share capital

During the year ended December 31, 2020:

On April 30, 2020, the Company completed the first tranche of 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.

In connection with the Offering, the Company paid cash commissions and corporate finance fees of \$128,355. The Company also granted 136,280 non-transferrable share purchase warrants (the “Agent Warrants”). Each Agent Warrant may be exercised into one unit (the “Agent Unit”) at a price of \$0.25 until 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 a common share purchase warrant. The fair value of the Agent Warrants was \$21,840, 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 with a fair-value of \$2,250,000 in connection with the Acquisition Transaction (Note 4) 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 common shares, with a fair-value of \$914,669, to Boris Gorodnitsky and Robert Colwell as a signing bonus to become executives of New Leaf USA, Inc.

On June 2, 2020, the Company completed a second tranche of its initial public offering of 2,990,400 Units at a price of \$0.25 per Unit for aggregate gross proceeds of approximately \$747,600 (the “Second Tranche”). Each Unit is comprised of one Common Share and one-half common share purchase warrant. Each Warrant will be exercisable at a price of \$0.40 until April 30, 2022 subject to early expiry on the Early Expiry Event.

In connection with the Second Tranche, the Company paid a cash commission in the amount of \$9,600 as well as reimbursement of expenses totaling \$4,012. In addition, the Company incurred \$105,507 of legal expenses in connection with the Offering which was charged to share capital as share issuance costs.

The Company also granted 76,000 Agent Warrants. Each Agent Warrant may be exercised into one Agent Unit at a price of \$0.25 until April 30, 2022, subject to an early expiry date upon the occurrence of the Early

12. SHARE CAPITAL CONTINUED

Expiry Event. Each Agent Unit consists of one common share and one-half of a common share purchase warrant. The fair value of the Agent Warrants was \$20,232, 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, 2020, the Company raised \$1,531,815 CAD in gross proceeds from the exercise of 6,005,000 warrants and 29,220 Agent Warrants. Upon exercise of the Agent Warrants, the Company transferred \$3,997 from warrant reserve to share capital, representing the fair value of the Agent Warrants. In addition, the Company issued 14,610 warrants with an exercise price of \$0.40 expiring on April 30, 2022 as a result of the exercise of the Agent Warrants.

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 the CEO of the Company, in settlement of 500,000 fully-vested restricted share rights granted to the CEO on the same date.

On December 12, 2019, the Company issued 145,000 common shares in settlement of the \$36,250 loan payable.

Warrants

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

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2018	-	\$ -
Issued (i)	12,000,000	0.25
Balance, December 31, 2019	12,000,000	0.25
Issued (ii)(iii)	20,106,526	0.32
Exercised	(6,034,220)	0.25
Balance, December 31, 2020	26,072,306	\$ 0.31

- (i) On June 19, 2020, the Company decided to amend the terms (the "Amendment") of an aggregate of 12,000,000 outstanding common share purchase warrants previously issued by the Company. The 12,000,000 warrants were previously exercisable to acquire common shares of the Company at a price of \$0.05 until February 26, 2021. Under the Amendment, the exercise price of the Warrants was increased

12. SHARE CAPITAL CONTINUED

to \$0.25. There was no increase to the incremental fair value of the warrants as a result of these modifications. As compensation to allow for the repricing of the share purchase warrants, the Company issued 12,000,000 additional share purchase warrants with expiry date of June 19, 2022 and an exercise price of \$0.40. There was no increase to the value of the warrant reserve for the compensatory warrants as it was offset by a corresponding increase to warrant issuance costs resulting in a \$nil impact on the Company's equity position.

- (ii) As part of the Acquisition Transaction (note 4), the Company issued 4,000,000 Performance Warrants. The Performance Warrants are subject to vesting conditions based on revenue targets for either the Company or the License Holder. Each Performance Warrant entitles the holder to purchase one Class A common share of the Company at an exercise price of \$0.02. Assuming vesting conditions are met, the holder can elect to exercise the Performance Warrants, on a net settlement basis based on the fair market value of the shares on the exercise date.
- (iii) The Performance Warrants were assessed to be a derivative liability in accordance with IFRS 9 and was measured at fair value at acquisition using the Black Scholes option pricing model and the following input assumptions.

	Year ended December 31, 2020
Share price at grant date (\$)	\$ 0.25
Exercise Price	\$ 0.02
Expected annual volatility	116.33%
Expected life (in years)	3.0
Expected dividend yield	0%
Risk-free interest rate	0.28%
Fair value per warrant	\$0.24

The Performance Warrants had a fair value of \$352,800 on initial recognition and were subsequently re-measured at December 31, 2020 with a resulting loss on re-measurement of \$9,958 recognized in profit and loss for the period ended December 31, 2020.

- (iv) As part of the initial public offering closed during the year ended December 31, 2020, the Company issued 212,281 agent warrants which were fair-valued using the Black Scholes option pricing model and the following weighted average input assumptions:

	Year ended December 31, 2020
Share price at grant date (\$)	\$ 0.30
Exercise Price	\$ 0.25
Expected annual volatility	106%
Expected life (in years)	1.97
Expected dividend yield	0%
Risk-free interest rate	0.29%
Fair value per warrant	\$0.17

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12. SHARE CAPITAL CONTINUED

The weighted average fair value of the agent warrants was \$37,339. There were no agent warrants issued during the year ended December 31, 2019.

As at December 31, 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
6,150,000	6,150,000	0.25	February 26, 2021	0.16
3,724,636	3,739,246	0.40	April 30, 2022	1.33
197,670	183,060	0.25	April 30, 2022	1.33
12,000,000	12,000,000	0.40	June 19, 2022	1.47
4,000,000	-	0.02	April 30, 2023	2.33
26,072,306	22,072,306	\$ 0.31		1.27

13. SHARE-BASED COMPENSATION

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”). The aggregate number of Common Shares that may be subject to issuance under the Equity Incentive Plan, together with any other securities-based compensation arrangements of the Corporation, shall not exceed 15% of the Corporation’s issued and outstanding share capital from time to time.

Options are exercisable for a period of five years from the date the Option is granted or such greater or lesser period as determined by the Board. Options may be earlier terminated in the event of death or termination of employment or appointment. Vesting of Options is determined by the Board. Failing a specific vesting determination by the Board, Options automatically become exercisable incrementally over a period of eighteen months from the date of grant, as to: (i) 25% of the total number of shares under Option immediately upon the date of grant; and (ii) at each six-month interval thereafter, an additional 25% of the total number of shares under Option such that after the 18th month of the Option period, 100% of the Option will be exercisable. The right to exercise an Option may be accelerated in the event a takeover bid in respect of the Common Shares is made.

Concurrent with the granting of the RSR, the Board shall determine the period of time during which the RSR is not vested and the holder of such RSR remains ineligible to receive Common Shares. Such period of time may be reduced or eliminated from time to time for any reason as determined by the Board. Once the RSR

13. SHARE-BASED COMPENSATION CONTINUED

vests, the RSR is automatically settled through the issuance of an equivalent number of underlying Common Shares as RSRs held

DSUs are redeemable during the period commencing on the business day immediately following the date such director ceases to hold any directorship and ending on the 90th day following such date by providing written notice of redemption to the Corporation. Upon redemption, the director shall be entitled to receive the number of Common Shares equal to the number of DSUs in the director's account. If the director ceases to hold office during a year where DSUs have been granted in advance of being earned and they have not held office for the entire year, the director will only be entitled to a pro-rated issuance of shares.

The Company's recorded share-based compensation for the year ended December 31, 2020 and 2019 comprised the following:

	December 31, 2020	December 31, 2019
Stock Options (a)	\$ 104,001	\$ 34,338

(a) 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 years ended December 31, 2020 and 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	500,000	\$ 0.25
Granted	1,225,000	0.34
Balance, December 31, 2020	1,725,000	\$ 0.31

The Company fair valued the options using the Black-Scholes option pricing model with the following inputs:

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13. SHARE-BASED COMPENSATION CONTINUED

	Year ended December 31, 2020	Year ended December 31, 2019
Share price at grant date (\$)	\$ 0.34	\$ 0.25
Exercise Price	\$ 0.34	\$ 0.25
Expected annual volatility	138%	100%
Expected life (in years)	5.00	5.00
Expected dividend yield	0%	0%
Risk-free interest rate	0.27%	1.50%
Fair value per option	\$ 0.30	\$ 0.19

The risk-free interest rate is based on the yield of a risk-free Canadian government security with a maturity equal to the expected life of the options from the date of the grant. The assumption of expected volatility is based on the average historical volatility of comparable companies for the period immediately preceding the option grant. The Company does not anticipate paying any cash dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero in the option-pricing model.

Total fair value of stock options granted during the year ended December 31, 2020 was \$365,050 (year ended December 31, 2019 - \$93,274).

Stock options outstanding and exercisable at December 31, 2020 are as follows:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life in Years
500,000	375,000	0.25	November 14, 2024	3.87
1,225,000	-	0.34	November 10, 2031	10.87
1,725,000	375,000	\$ 0.31		8.84

(b) 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 year ended December 31, 2020, the Company did not issue any RSRs and there are no RSRs outstanding.

13. SHARE-BASED COMPENSATION CONTINUED

(c) 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 year ended December 31, 2020 and 2019, the Company did not issue any DSUs and there were no DSUs outstanding.

14. FINANCIAL INSTRUMENTS

Fair value

The carrying values of cash, receivables, accounts payable and accrued liabilities and due to/from related parties approximate their fair values due to the relatively short period to maturity of those financial instruments. The fair value of notes payable to related parties and lease receivable from related parties approximate their carrying value as they were recently fair valued as part of the acquisition purchase price allocation using a market rate of interest. Derivative warrant liability is carried at fair value and revalued at each reporting date.

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: Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

As at December 31, 2020 and December 31, 2019, the financial instruments recorded at fair value on the statement of financial position are cash and derivate liability which are measured using Level 1 and Level 3 respectively of the fair value hierarchy.

14. FINANCIAL INSTRUMENTS CONTINUED

The following table summarizes the classification of the Company's financial instruments under IFRS 9:

	December 31, 2020	FVTPL	Amortized costs	FVTOCI
ASSETS	\$	\$	\$	\$
Cash	136,553	136,553	-	-
Receivables	79,873	-	79,873	-
Due from related party	1,868,318	-	1,868,318	-
Lease receivable	3,241,823	-	3,241,823	-
LIABILITIES				
Accounts payable and accrual liabilities	650,578	-	650,578	-
Due to related party	195,673	-	195,673	-
Notes payable	2,415,991	-	2,415,991	-
Derivative liability	362,758	362,758	-	-
	December 31, 2019	FVTPL	Amortized costs	FVTOCI
ASSETS		\$	\$	\$
Cash	80,150	80,150	-	-
Receivables	80,134	-	80,134	-
LIABILITIES				
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, receivables and amounts due from related parties. Receivables are primarily related to GST receivable and other receivable balances. Given the GST is payable by the government of Canada, management feels there is minimal credit risk associated with this receivable balance. Similarly, management feels there is minimal risk for balances due from the License Holder since the 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 December 31, 2020, all of the Company's financial liabilities, except for its warrant derivative liability and notes payable, have maturities of less than one year. As at December 31, 2020, the Company had cash of \$136,553 (2019 – \$80,150) and a working capital deficiency of \$1,276,856 (December 31, 2019 – working capital deficiency of \$396,764). Refer to note 1 for further discussion regarding going concern.

14. FINANCIAL INSTRUMENTS 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

Foreign currency risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company maintains financial instruments and enters into transactions denominated in foreign currencies, principally in USD, exposing the Company to fluctuating balances and cash flows due to various in foreign exchange rates. The Company has not entered into any foreign currency contracts to mitigate this risk. The CAD equivalent carrying amounts of the Company's USD denominated monetary assets and monetary liabilities is as follows:

	December 31, 2020	December 31, 2019
ASSETS	\$	\$
Due from related party	1,868,318	-
Lease receivables	3,241,823	-
LIABILITIES		
Accounts payable and accrual liabilities	230,189	-
Due to related party	195,673	-
Notes payable	2,415,991	-
Lease obligation	3,286,164	-

Assuming all other variables remain constant, a fluctuation of +/- 5.0% in the exchange rate between CAD and USD would impact the net loss for the period by approximately \$50,894 (2019 – \$nil).

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15. INCOME TAX

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

	Year ended December 31, 2020	Year ended December 31, 2019
Loss before taxes	\$ (6,600,105)	\$ (1,171,103)
Statutory income tax rate	27%	27%
Expected recovery at statutory rate	(1,782,000)	(313,000)
Increase (decrease) in taxes resulting from:		
Change in statutory, foreign tax, foreign exchange rates and other	13,000	16,000
Impact as a result of acquisition of subsidiaries	(245,000)	-
Permanent differences	1,495,000	9,000
Share issue cost	(67,000)	(7,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	43,000	-
Change in unrecognized deferred tax asset	543,000	295,000
Total income tax expense (recovery)	\$ -	\$ -

The significant components of the Company's deferred tax assets and liabilities are as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Deferred tax assets (liabilities)		
Share issue costs	\$ 94,000	\$ 5,000
Intangible assets	295,000	-
Non-capital losses available for future period	459,000	305,000
Total	848,000	310,000
Unrecognized deferred tax assets	(848,000)	(310,000)
Total income tax expense (recovery)	\$ -	\$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	Year ended December 31, 2020	Expiry Date Rang
Temporary Differences		
Share issue costs	\$ 348,000	2041 to 2044
Intangible assets	1,406,000	No expiry date
Non-capital losses available for future period	1,699,000	2039 to 2040
Canada	1,699,000	2039 to 2040
USA	-	-

	Year ended December 31, 2019	Expiry Date Rang
Temporary Differences		
Share issue costs	\$ (5,000)	2041 to 2043
Non-capital losses available for future period	1,132,000	2038 to 2039

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	Year ended December 31, 2020	Expiry Date Rang
Canada	1,132,000	2039 to 2040
USA	-	-

16. SUPPLEMENTAL CASH FLOW INFORMATION

The following are non-cash investing and financing activities that occurred during the year ended December 31, 2020 and 2019

	December 31, 2020	December 31, 2019
Share subscription redeemed	\$ 40,000	\$ -
Share issuance costs – agent warrants	42,072	-
Prepaid share issuance costs	30,750	-
Movement from reserve on exercise of options	3,997	-
Accrued sublease payments receivable	359,675	-
Acquisition of New Leaf USA	2,602,800	-

During the year ended December 31, 2020, the Company made cash payments of \$7,995 related to taxes (2019 - \$nil) and \$250,961 related to interest (2019 - \$nil).

17. SUBSEQUENT EVENTS

On December 22, 2020 New Leaf Ventures announced the execution of a letter agreement with Zen Asset Management LLC and its parent company, Artizen Asset Management LLC. ZAM is a diversified asset management that acquires, develops, and supports companies and technologies in the emerging cannabis industry. The Letter Agreement outlines the general terms and conditions pursuant to which New Leaf and ZAM would potentially undertake a business combination. The Proposed Transaction is subject to a number of conditions, including due diligence and the negotiation of a definitive agreement.

On January 15, 2021 the Company granted a total of 875,000 stock options, with immediate vesting, to directors and officers of the Company with an exercise price of \$0.28 per option. Subsequent to December 31, 2020, the Company received aggregate proceeds of \$2,825,500 from the exercise of 9,387,417 warrants. In addition, the Company received aggregate proceeds of \$128,750 from the exercise of 500,000 stock options.

On March 2, 2021, the Company accelerated the expiry of share purchase warrants (“IPO warrants”) originally granted as part the Company’s initial public offering on April 30, 2020. The IPO warrants were subject to early expiry (the “Early Expiry Event”) if the closing price of the Common Shares on the CSE (or any equivalent exchange) was equal to or greater than \$0.60 per Common Share for a period of ten consecutive trading days. The Company determined that as of start of day March 2, 2021 (the “Assessment Date”), that the Company’s Common Share price had been trading at, or greater than, \$0.60 for the last 10 consecutive trading days. As a result, the warrants were accelerated to expire within 30 days from and including the Assessment Date. The accelerated expiry date was March 31, 2021. Subsequently, 701,809 IPO warrants remained unexercised and expired on March 31, 2021.

On May 10, 2021, the License Holder granted a waiver of default to EquipmentCo and IPCo in relation to missed payments for the notes payables held by the entities. The License Holder waived its rights to demand immediate repayment for the entire principal and accrued interest outstanding on the notes. In addition, the License

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Holder waives its right to increase the interest rate as permitted due to the occurrence of a default event. The waiver is effective for an indefinite period of time subject to the License Holder's discretion.