



**New Leaf Ventures, Inc.**

**Consolidated Financial Statements  
For the Years Ended December 31, 2021 and 2020  
(Expressed in Canadian Dollars)**



## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF NEW LEAF VENTURES INC.

#### *Opinion*

We have audited the consolidated financial statements of New Leaf Ventures Inc. (the "Company"), which comprise:

- ♦ the consolidated statement of financial position as at December 31, 2021;
- ♦ the consolidated statement of loss and comprehensive loss for the year then ended;
- ♦ the consolidated statement of changes in shareholders' equity for the year then ended;
- ♦ the consolidated statement of cash flows for the year then ended; and
- ♦ the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our 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 audit is sufficient and appropriate to provide a basis for our opinion.

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

We draw attention to Note 1 in the consolidated financial statements, which indicates that as at December 31, 2021, the Company has an accumulated deficit of \$11,769,745. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### *Other Matter*

The consolidated financial statements of the Company for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on May 28, 2021.

#### *Other Information*

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis. Our opinion on the consolidated financial statements does not cover the other information and we do not 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this, 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.



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

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

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

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

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

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

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia

April 29, 2022

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

	Notes	December 31, 2021	December 31, 2020
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 58,805	\$ 136,553
Receivables		42,572	79,873
Due from related party	8(i)	1,888,672	1,868,318
Prepaid balances	5	8,209	291,006
Share subscription receivable	10	73,198	-
Current portion of lease receivables	8(i), 9	286,336	242,657
<b>Total Current Assets</b>		<b>\$ 2,357,792</b>	<b>\$ 2,618,407</b>
<b>Non-Current Assets</b>			
Property and equipment	6	\$ 871,013	\$ 843,775
Lease receivable	9, 8	2,700,108	2,999,166
Other assets	8(ii)	25,683	25,792
<b>Total Non-Current Assets</b>		<b>\$ 3,596,804</b>	<b>\$ 3,868,733</b>
<b>TOTAL ASSETS</b>		<b>\$ 5,954,596</b>	<b>\$ 6,487,140</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	7, 8	\$ 738,656	\$ 650,578
Due to related parties		11,122	195,673
Current portion of lease obligations	9	298,425	254,985
Notes payable to related parties	8(i)	864,465	2,415,991
Derivative liability	10	-	362,758
Security deposit		15,214	15,278
<b>Total Current Liabilities</b>		<b>\$ 1,927,882</b>	<b>\$ 3,895,263</b>
<b>Non-Current Liabilities</b>			
Lease obligation	9	2,719,898	3,031,179
<b>Total Non-Current Liabilities</b>		<b>\$ 2,719,898</b>	<b>\$ 3,031,179</b>
<b>TOTAL LIABILITIES</b>		<b>\$ 4,647,780</b>	<b>\$ 6,926,442</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Share capital	10	\$ 12,170,886	\$ 7,087,003
Share-based payments reserve	11	534,444	138,339
Warrant reserve	10	239,470	38,075
Foreign currency translation		131,761	104,739
Deficit		(11,769,745)	(7,807,458)
<b>TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		<b>\$ 1,306,816</b>	<b>\$ (439,302)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		<b>\$ 5,954,596</b>	<b>\$ 6,487,140</b>

Nature of operations and continuance of operations (note 1)  
Related party transactions (note 8)  
Subsequent events (note 15)

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,	
		2021	2020
<b>Revenue</b>	8(i)	\$ 2,471,902	\$ 2,050,990
<b>Expenses</b>			
Amortization		\$ -	\$ 331,299
Communication		99,874	26,040
Consulting		182,228	122,507
Depreciation		192,635	110,259
Director fees		24,000	24,000
Marketing		3,475,083	985,080
Office		235,615	296,690
Utilities and property tax		345,163	-
Professional fees		326,339	480,882
Regulatory and filing fees		60,122	33,036
Research and development		-	79,926
Share-based compensation	8(iii), 11	525,811	104,001
Wages and salaries	8(iii)	1,760,412	2,078,552
		\$ (7,227,282)	\$ (4,672,272)
<b>Other Expenses</b>			
Interest income	8(i)	\$ 372,444	\$ 256,623
Accretion expense	8(i)	(159,073)	(180,547)
Bad debt expense		-	(48,390)
Foreign exchange		(29,731)	(21,163)
Gain on forgiveness of accounts payable		-	25,923
Gain / (loss) on remeasurement of derivative		362,758	(9,958)
Other income	8(i)	539,378	
Goodwill impairment	4	-	(3,780,891)
Interest expense	8(ii)	(292,683)	(220,420)
<b>Net Loss for the Year</b>		\$ (3,962,287)	\$ (6,600,105)
<b>Other Comprehensive Income</b>			
Items that may be subsequently reclassified to profit and loss			
Foreign currency translation adjustment		\$ 27,022	\$ 104,739
<b>Total Comprehensive Loss for the Year</b>		\$ (3,935,265)	\$ (6,495,366)
Basic and diluted loss per common share		\$ (0.08)	\$ (0.24)
Weighted average number of common shares outstanding (basic and diluted)		50,020,795	27,917,810

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

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

	Number of Shares	Share Capital	Share Subscription Received	Share-based payments reserve	Warrant Reserve	Foreign Currency Translation	Accumulated Deficit	Total
<b>Balance - December 31, 2019</b>	<b>12,645,000</b>	<b>\$ 736,251</b>	<b>\$ 40,000</b>	<b>\$ 34,338</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,207,353)</b>	<b>\$ (396,764)</b>
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
Loss and comprehensive loss for the year	-	-	-	-	-	104,739	(6,600,105)	(6,495,366)
<b>Balance - December 31, 2020</b>	<b>39,097,167</b>	<b>\$ 7,087,003</b>	<b>\$ -</b>	<b>\$ 138,339</b>	<b>\$ 38,075</b>	<b>\$ 104,739</b>	<b>\$ (7,807,458)</b>	<b>\$ (439,302)</b>
Shares issued upon exercise of warrants	11,907,417	3,841,974	-	-	(21,295)	-	-	3,820,679
Shares issued upon exercise of options	625,000	293,456	-	(129,706)	-	-	-	163,750
Shares issued on public offering	6,000,000	1,380,000	-	-	120,000	-	-	1,500,000
Shares issued on at-the-market offering	458,000	74,553	-	-	-	-	-	74,553
Share issue costs	-	(506,100)	-	-	102,690	-	-	(403,410)
Share-based payments	-	-	-	525,811	-	-	-	525,811
Loss and comprehensive loss for the year	-	-	-	-	-	27,022	(3,962,287)	(3,935,265)
<b>Balance - December 31, 2021</b>	<b>58,087,584</b>	<b>\$ 12,170,886</b>	<b>\$ -</b>	<b>\$ 534,444</b>	<b>\$ 239,470</b>	<b>\$ 131,761</b>	<b>\$ (11,769,745)</b>	<b>\$ 1,306,816</b>

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

**New Leaf Ventures, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2021 and 2020**  
*(Expressed in Canadian Dollars)*

	<b>For the year ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Notes	\$	\$
<b>OPERATING ACTIVITIES</b>		
<b>Net loss for the year</b>	<b>\$ (3,962,287)</b>	<b>\$ (6,600,105)</b>
<b>Non-cash items:</b>		
Interest income	\$ (372,444)	\$ (256,623)
Interest expense	292,513	220,420
Amortization of intangible assets	-	331,299
Accretion expense	159,073	180,547
Depreciation of equipment	192,635	110,259
Bad debt expense	-	48,390
Share-based compensation	525,811	104,001
Wages and salaries paid in shares	-	914,669
Goodwill impairment	-	3,780,891
Gain / (loss) on re-measurement of derivative	(362,758)	9,958
Foreign exchange	32,266	-
<b>Changes in non-cash working capital items:</b>		
Accounts receivable	\$ 37,301	\$ (48,129)
Prepays	282,797	(291,006)
Accounts payable and accrued liabilities	63,161	89,631
Due from related party	589,590	(1,007,655)
Due to related party	(183,440)	(217,588)
Security deposit	-	15,278
<b>Cash Flow used in Operating Activities</b>	<b>\$ (2,705,782)</b>	<b>\$ (2,615,763)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of business, net of cash acquired	\$ -	\$ 3
Acquisition of property and equipment	(223,104)	(129,047)
Payment of lease obligations	(518,535)	(359,675)
<b>Cash Flow used in Investing Activities</b>	<b>\$ (741,639)</b>	<b>\$ (488,719)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from share issuance, net of issuance cost	\$ 1,097,945	\$ 1,683,103
Proceeds from exercise of warrants	3,820,679	1,531,805
Repayment of note payable	(1,682,968)	(99,908)
Proceeds from exercise of options	163,750	-
<b>Cash Flow from Financing Activities</b>	<b>\$ 3,399,406</b>	<b>\$ 3,115,000</b>
Effect of foreign exchange rate fluctuation	(29,733)	45,885
Increase / (decrease) in cash in the year	(77,748)	56,403
<b>Cash – beginning of the year</b>	<b>\$ 136,553</b>	<b>\$ 80,150</b>
<b>Cash – end of the year</b>	<b>\$ 58,805</b>	<b>\$ 136,553</b>
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 8 for details on the related party nature and transactions with the License Holder during the year ended December 31, 2021.

The Company’s head office, principal address and registered address and records office is 1910 - 1030 West Georgia Street, Vancouver, British Columbia, V6E 2Y3, 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, 2021 the Company had a working capital of \$429,910 and an accumulated deficit of \$11,769,745. 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 April 29, 2022.

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2021. 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.

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

<b>Entity Name</b>	<b>Principal activity</b>	<b>Place of business and operations</b>	<b>Functional currency</b>	<b>Equity percentage</b>
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 Ventures, Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2021 and 2020**  
*(Expressed in Canadian Dollars)*

<b>Entity Name</b>	<b>Principal activity</b>	<b>Place of business and operations</b>	<b>Functional currency</b>	<b>Equity percentage</b>
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%

All the entities detailed above are collectively referred to as the "New Leaf Group".

**Summary of significant accounting policies**

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

**a) 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 US 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' equity (deficiency).

**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

**b) 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:

<b>Asset</b>	<b>Life</b>
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.

**c) 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.

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.

**d) 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.

**e) 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.

**f) 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

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.

#### **g) 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 management's best estimate as to the outcomes, based on known facts, risks and uncertainties at the reporting date.

#### **h) 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.

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, revenues from contracts with customers are presented separately from liabilities from contracts with customers.

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.

**i) 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.

**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 is recognized in the consolidated statement of loss and comprehensive loss as a share-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.

### **j) 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 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.

### **k) 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.

## I) 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.

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.

Financial liabilities may also include 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.

#### **m) 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.

### **Future changes in accounting policies**

The following standards are not yet effective for the year ending December 31, 2021, and have not been applied in the preparation of the consolidated financial statements:

#### **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 judgments**

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, 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 judgments 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.

### ***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 judgments 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 judgment 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 judgment 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.

## **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, 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, 2021, 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.

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

	<b>As of December 31, 2021</b>		<b>As of December 31, 2020</b>	
United States	\$	3,596,804	\$	3,868,733
<b>Total non-current assets</b>	<b>\$</b>	<b>3,596,804</b>	<b>\$</b>	<b>3,868,733</b>

#### **4. ACQUISITION OF NEW LEAF USA, INC.**

On April 30, 2020, the Company completed their previously announced acquisition of New Leaf USA, Inc. and all of its wholly-owned subsidiaries. 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 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 based on the following performance criteria as follows:

- i. 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
- ii. 2,000,000 Performance Warrants will vest and become exercisable the Company or License Holder achieves at least \$7,500,000 in annual gross revenue.

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

	<b>Final</b>
<b>Consideration transferred:</b>	
Fair value of 9,000,000 common shares issued	\$ 2,250,000
Fair value of contingent consideration (i)	352,800
<b>Total consideration</b>	<b>\$ 2,602,800</b>
<b>Fair value of assets and liabilities recognized:</b>	
Cash	\$ 3
Related party receivable (note 9)	584,555
Lease receivable	3,695,586
Equipment	896,289
Intangible assets	345,948
Lease deposits	28,179
Accounts payable	(420,334)
Capital lease obligations	(3,752,996)
Notes payable	(2,555,321)
<b>Fair value of net assets acquired</b>	<b>\$ (1,178,091)</b>
<b>Goodwill</b>	<b>\$ 3,780,891</b>

- (i) The Performance Warrants were valued using the Black-Scholes option pricing model (note 10) 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 10). The Performance Warrants are subsequently re-measured at each reporting date.

As at December 31, 2021, the Performance Warrants were re-measured at fair-value to \$nil (2020 - \$362,758). A resulting gain on re-measurement of \$362,758 (note 10) was consequently recognized in profit and loss for the year ended December 31, 2021 (2020 - loss of re-measurement of \$9,958). The change in fair-value was based on management's re-evaluation over the probabilities to meet performance criteria specific to the Performance Warrants.

- (ii) 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 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. The IP agreement was further amended in 2021 to extend out to May 31, 2023.

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.

The intangible assets acquired had a useful life of six months and were fully depreciated as at December 31, 2020.

During the year ended December 31, 2020 the Company performed an annual impairment test of goodwill and determine that the carrying value of the Company's total net assets exceeded the Company's value-in-use as at December 31, 2020. Subsequently, for the year ended December 31, 2020, the Company recorded an impairment loss of \$3,780,891 to reduce goodwill to \$nil.

New Leaf Ventures, Inc.  
Notes to the Consolidated Financial Statements  
For the Years Ended December 31, 2021 and 2020  
(Expressed in Canadian Dollars)

5. PREPAID BALANCES

	December 31, 2021		December 31, 2020	
Prepaid marketing expense	\$	-	\$	256,060
Prepaid accounting expense		-		30,000
Other prepaid expenses		8,209		4,946
<b>Total prepaid expenses</b>	<b>\$</b>	<b>8,209</b>	<b>\$</b>	<b>291,006</b>

6. PROPERTY AND EQUIPMENT

	Equipment		Leasehold Improvements		Total
<b>Cost</b>					
<b>As at December 31, 2019</b>	\$	-	\$	-	\$ -
Acquisition transaction (note 5)		896,289		-	896,289
Additions		121,968		7,079	129,047
Currency translation adjustment		(75,904)		-	(75,904)
<b>As at December 31, 2020</b>	<b>\$</b>	<b>942,353</b>	<b>\$</b>	<b>7,079</b>	<b>\$ 949,432</b>
Additions		40,124		182,980	223,104
Currency translation adjustment		(3,539)		2,057	(1,482)
<b>As at December 31, 2021</b>	<b>\$</b>	<b>978,938</b>	<b>\$</b>	<b>192,116</b>	<b>\$ 1,171,054</b>
<b>Accumulated Depreciation</b>					
<b>As at December 31, 2019</b>	\$	-	\$	-	\$ -
Additions		110,259		-	110,259
Currency translation adjustment		(4,602)		-	(4,602)
<b>As at December 31, 2020</b>	<b>\$</b>	<b>105,657</b>	<b>\$</b>	<b>-</b>	<b>\$ 105,657</b>
Additions		164,262		28,373	192,635
Currency translation adjustment		1,426		323	1,749
<b>As at December 31, 2021</b>	<b>\$</b>	<b>271,345</b>	<b>\$</b>	<b>28,696</b>	<b>\$ 300,041</b>
<b>Carrying Amount</b>					
As at December 31, 2020	\$	836,696	\$	7,079	\$ 843,775
<b>As at December 31, 2021</b>	<b>\$</b>	<b>707,593</b>	<b>\$</b>	<b>163,420</b>	<b>\$ 871,013</b>

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2021		December 31, 2020	
Trade payables	\$	557,264	\$	473,293
Accrued liabilities		181,392		177,285
<b>Total accounts payable and accrued liabilities</b>	<b>\$</b>	<b>738,656</b>	<b>\$</b>	<b>650,578</b>



## 8. 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 includes 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*

During the years ended December 31, 2021 and 2020, the Company recognized the following revenues from the License Holder:

Revenue type	2021	2020
Equipment leasing revenue	\$ 90,252	\$ 63,941
Service fee revenues	1,504,200	1,398,705
Intellectual property licensing revenues	877,450	588,344
<b>Total revenues from License Holder</b>	<b>\$ 2,471,902</b>	<b>\$ 2,050,990</b>

In addition, the Company also incurred the following transactions with the License Holder during the year ended December 31, 2021:

- (i) Accrued interest income on outstanding receivables due from License Holder of \$67,795 (2020 - \$27,616);
- (ii) Interest income on lease receivables of \$304,649 - Note 9 (2020 - \$229,007);
- (iii) Accretion expense on notes payables of \$159,073 (2020 - \$180,547); and
- (iv) Other income of \$539,378 (2020 - \$nil) relating to sub-lease operating expenses (utilities, property tax, insurance) that were incurred by the Company and which are reimbursable by the License Holder (note 9 - sub-tenant).

As at December 31, 2021, there was a balance of \$1,888,672 (2020 - \$1,868,318) due from the License Holder to the Company related to equipment leasing, service fees, and IP licensing during the year ended December 31, 2021. In addition, there was a balance of \$11,122 (2020 - \$195,673) due from the Company to the License Holder for reimbursable lease operating costs.

As at December 31, 2021, there was a balance of \$2,986,444 (2020 - \$3,241,823) due from the License Holder to the Company related to the lease receivable. In addition, there was a balance of \$15,214 (2020 - \$15,278) due from the Company to the License Holder for a refundable security deposit.

As at December 31, 2021, there were two note payables with aggregate balance of \$864,465 (2020 - \$2,415,991) due from the Company 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 totaling USD\$236,269.

A continuity of notes payable for the year ended December 31, 2021 is as follows:

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<b>Balance, December 30, 2019</b>	<b>\$</b>	<b>-</b>
Acquisition transaction		2,555,321
Accretion expense		180,547
Payment		(99,908)
Currency translation adjustment		(219,969)
<b>Balance, December 31, 2020</b>	<b>\$</b>	<b>2,415,991</b>
Accretion expense		159,073
Payment		(1,682,968)
Currency translation adjustment		(27,631)
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>864,465</b>

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

<b>Year</b>	<b>Amount</b>
2022	\$ 864,465
2023	-
2024	-
2025	-
2026	-
Thereafter	-
<b>Total</b>	<b>\$ 864,465</b>

**(ii) Transactions with other related parties**

During the year ended December 31, 2021 the Company had the following transactions with a company controlled by a director of the Company (note 9):

- (i) Interest expense on lease obligations of \$201,473 (2020 - \$151,101).

As at December 31, 2021, there was a balance of \$25,684 (2020 - \$25,792) due from the related party to the Company related to the prepaid rent. In addition, there was a balance of \$2,083,582 (2020 - \$2,256,571) due from the Company to the related party related to a lease obligation between RealEstateCo and a Washington based company which is controlled by a director of the Company.

**(iii) Key Personnel Compensation**

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Directors' fees	\$ 24,000	\$ 24,000
Consulting fees	141,500	88,000
Share-based payments <sup>(1)</sup>	251,300	63,583
Wages and salaries <sup>(2)</sup>	300,840	1,123,706
<b>Total</b>	<b>\$ 717,640</b>	<b>\$ 1,299,289</b>

<sup>(1)</sup> Share-based payments related to share purchase options issued to directors during the years ended December 31, 2021 and 2020.

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<sup>(2)</sup> \$300,840 of wages and salaries recognized during the year ended December 31, 2021 (May 1 – December 31, 2020 - \$209,037). For the period May 1 – December 31, 2020, wages and salaries also included \$914,669 relating to fair value of common shares issued to two executives of the Company as a signing bonus.

During the year ended December 31, 2021, the Company incurred consulting fees of \$70,000 (2020 - \$6,000) to a Company 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 \$2,100 as at December 31, 2021 (2020 - \$nil). The balances due are non-interest bearing and due on demand.

## 9. 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 controlled by a director of the Company. Building Lease #2 is between RealEstateCo and an arms-length Washington based company. The Head Leases include 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.

### *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		2021		2020
<b>Balance, beginning of year</b>	<b>\$</b>	<b>3,286,164</b>	<b>\$</b>	<b>-</b>
Acquisition transaction (note 4)		-		3,752,996
Interest expense		292,513		220,420
Payment of lease obligations		(518,535)		(359,675)
Accrued lease payment		(31,219)		-
Foreign exchange impact		(10,600)		(327,577)
<b>Balance, end of year</b>	<b>\$</b>	<b>3,018,323</b>	<b>\$</b>	<b>3,286,164</b>

Minimum lease payments are as follows:

Minimum lease payments for each fiscal year:	
2022	\$ 568,113
2023(i)	596,265
2024(i)	622,846
2025(i)	644,099

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	2026(i)	666,415
	2027 and thereafter(i)	955,751
<b>Total</b>		<b>\$ 4,053,489</b>
Amount representing interest		(1,035,166)
Less: Current lease obligation		(298,425)
<b>Long-term lease obligation</b>		<b>\$ 2,719,898</b>

- (i) 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, illustrates the potential commitments upon exercise of the extension option.

***The Company as a Lessor***

<b>Lease Receivable</b>	<b>2021</b>		<b>2020</b>
<b>Balance, beginning of year</b>	<b>\$ 3,241,823</b>	<b>\$</b>	<b>-</b>
Acquisition transaction (note 4)	-		3,695,586
Interest income	304,649		229,007
Accrued sublease payments receivable	(549,754)		(359,675)
Foreign exchange impact	(10,274)		(323,095)
<b>Balance, end of year</b>	<b>\$ 2,986,444</b>	<b>\$</b>	<b>3,241,823</b>

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 rates implicit in the lease.

Minimum sublease payments receivable are as follows:

<b>Minimum lease payments receivable for each fiscal year:</b>	
2022	\$ 568,113
2023(i)	596,265
2024(i)	622,846
2025(i)	644,099
2026(i)	666,415
2027 and thereafter(i)	981,435
<b>Total</b>	<b>\$ 4,079,173</b>
Amount representing interest	(1,092,729)
Less: Current lease receivable	(286,336)
<b>Long-term lease receivable</b>	<b>\$ 2,700,108</b>

- (i) 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 from May 31, 2023 onward illustrates the potential commitments upon exercise of the extension option.

## **10. SHARE CAPITAL**

### **Authorized share capital**

As at December 31, 2021 and 2020, the Company is authorized to issue an unlimited number of preferred shares and Class A common shares without par value. The Company has no other classes of common shares that are authorized, issued, or outstanding as at December 31, 2021.

As at December 31, 2021, 5,898,904 (December 31, 2020 - 12,126,755) total common shares outstanding were held in escrow subject to the following escrow release schedule:

- 10% - on the date the Company's securities are listed on a Canadian Exchange (the "Listing Date")
- 15% - 6 months after the Listing Date
- 15% - 12 months after the Listing Date
- 15% - 18 months after the Listing Date
- 15% - 24 months after the Listing Date
- 15% - 30 months after the Listing Date
- 15% - 36 months after the Listing Date

### **Issued share capital**

#### ***During the year ended December 31, 2021:***

##### **Exercise of Stock Options and Share Purchase Warrants**

During the year ended December 31, 2021, the Company collected \$3,787,349 and \$163,750 in gross proceeds from the exercise of 11,774,097 share purchase warrants and 625,000 share options respectively. The warrant and option exercises resulted in the issuance of 12,399,097 common shares of the Company.

During the year ended December 31, 2021, the Company collected \$33,330 in gross process from the exercise of 133,320 agent warrants ("IPO Agent Warrants") which resulted in the issuance of 133,320 common shares and 66,660 share purchase warrants of the Company. Each share purchase warrant ("Additional Warrants") is exercisable into one common share of the Company at an exercise price of \$0.40 and expires on April 30, 2022. The exercise of the IPO Agent Warrants also resulted in the reclassification of \$21,295 from warrant reserve to share capital.

##### **Public Offering**

On November 2, 2021 the Company closed a public offering (the "November Offering") and issued a total of 6,000,000 units of the Company (the "Units") at a price of \$0.25 per Unit, for aggregate gross proceeds of \$1,500,000. Each Unit is comprised of one (1) common share of the Company (a "Common Share") and one-half common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will be exercisable at a price of \$0.40 until November 1, 2023 (the "Expiry Date") subject to acceleration. If, during the life of the Warrants, the closing price of the Common Shares as quoted on the Canadian Securities Exchange is equal to or exceeds \$0.60 per Common Share for any 10 consecutive trading days, the Company may provide notice to the holders of the Warrants by issuance of a news release that the expiry date of the Warrants will be accelerated to the 30th day after the date on which the Company issues such news release. The half-warrants were valued using a residual fair-value approach resulting in a fair-value of \$0.02 per half-warrant. Total fair-value of all Warrants issued on the November Offering was \$120,000 with the amount recognized in warrant reserve.

In connection with the November Offering, the Company paid a cash commission of \$105,000 to an agent connected with the financing transaction. The Company also issued 420,000 share purchase warrants (the “November Agent Warrants”) to the agent and members of its selling group. Each November Agent Warrant would entitle the holder to purchase one Unit (an “Agent Unit”) at an exercise price of \$0.25. Each Agent Unit consists of one common share and one-half of one common share purchase warrant (each whole warrant, an “Agent Unit Warrant”). Each Agent Unit Warrant would entitle the holder thereof to purchase one common share of the Company on the same terms and conditions as the Warrants issued on the November Offering. The fair value of the November Agent Warrants was \$102,690, calculated using the Black-Scholes option pricing model and the Geske compound option pricing model. This amount was charged to share capital as a non-cash share issuance cost. The Company also incurred \$297,054 of issuance cost relating to legal and agent work fees in connection with the November Offering.

#### **At-the-Market Distributions**

On November 15, 2021, the Company established an at-the-market equity program (the “ATM Program”) that allows the Company to issue and sell up to \$10,000,000 of common shares from treasury to the public, from time to time, and at the Company’s discretion. The ATM Program is managed by a broker agent, pursuant to an Equity Distribution Agreement (the “Distribution Agreement”). The agent will be compensated with cash commissions equal to 2% of total gross proceeds raised from any ATM placement. All common shares sold under the ATM Program will be made through sales that are deemed to be “at-the-market distributions” as defined in National Instrument 44-102 – Shelf Distributions, including sales made through the CSE, or any other trading market for the Common Shares in Canada.

During the month of December 2021, the Company completed a number of ATM placements and issued an aggregate of 458,000 common shares resulting in total proceeds of \$74,553. During the year ended December 31, 2021, the Company incurred total cash commissions of \$1,355 from the ATM placements. Net cash proceeds of \$73,198 were held by the Company’s agent and disbursed to the Company subsequent to year end. As at December 31, 2021, the net proceeds from the ATM placements had not been transferred to the Company by the agent. The proceeds owed have been recognized as a share subscription receivable.

#### ***During the year ended December 31, 2020:***

##### **Initial Public Offering**

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 (each whole warrant a “Warrant”). The fair value of the Agent Warrants was \$21,839, calculated using the Black-Scholes option pricing model. The amount was charged to share capital as non-cash share issue costs.

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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 reimbursement of expenses totaling \$4,012. In addition, the Company incurred \$105,507 of legal expense 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 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 \$20,233, calculated using the Black-Scholes option pricing model. The amount was charged to share capital as non-cash share issue costs.

**Acquisition of New Leaf USA, Inc**

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.

**Exercise of Stock Options and Share Purchase Warrants**

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.

**Warrants**

The changes in warrants during the years ended December 31, 2021 and 2020 are as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Balance, December 31, 2019</b>	<b>12,000,000</b>	<b>0.25</b>
Issued (i)(ii)(iii)	20,106,526	0.32
Exercised	(6,034,220)	0.25
<b>Balance, December 31, 2020</b>	<b>26,072,306</b>	<b>\$ 0.31</b>
Issued (iv)	3,486,660	0.40
Exercised	(11,907,417)	0.32
Expired (v)	(751,549)	0.39
<b>Balance, December 31, 2021</b>	<b>16,900,000</b>	<b>\$ 0.32</b>

- (i) 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

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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.

- (ii) The Performance Warrants were assessed to be a derivative liability in accordance with IFRS 9 and were measured at fair value at acquisition using the Black Scholes option pricing model and the following input assumptions at initial recognition:

	<b>Year ended December 31, 2020</b>
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 fair-value was subsequently re-measured as at December 31, 2021 with a resulting fair-value of \$nil determined. Consequently, a gain on re-measurement of \$362,758 was recognized in profit and loss for the year ended December 31, 2021.

- (iii) 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:

	<b>Year ended December 31, 2020</b>
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

The total fair value of the Agent Warrants was \$37,339.

- (iv) The Company issued 420,000 November Agent Warrants in connection with the November Public Offering. The November Agent Warrants were exercisable into Units which were further comprised of a common share of the Company and one-half of one common share purchase warrant. The November Agent Warrants were fair-valued using the Black Scholes option pricing model and the Geske compound option pricing model with the following weighted average input assumptions:



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	<b>Black-scholes option model inputs</b>
Share price at grant date (\$)	\$ 0.23
Exercise Price	\$ 0.25
Expected annual volatility	152.7%
Expected life (in years)	2.00
Expected dividend yield	0%
Risk-free interest rate	1.04%
Fair value per warrant	\$0.16

	<b>Geske compound option model inputs</b>
Share price at grant date (\$)	\$ 0.23
Exercise price of compound warrant (\$)	\$ 0.001
Exercise price of underlying warrant	\$ 0.250
Expected annual volatility	152.7%
Expected life compound warrant (in years)	1.99
Expected life underlying warrant (in years)	2.00
Expected dividend yield	0%
Risk-free interest rate	1.04%
Fair value per warrant	\$0.163

- (v) On March 2, 2021, the Company accelerated the expiry of 751,549 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.

As at December 31, 2021, warrants outstanding are as follows:

<b>Number of Warrants Outstanding</b>	<b>Number of Warrants Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Weighted Average Remaining Contractual Life in Years</b>
12,000,000	12,000,000	0.40	June 19,2022	0.47
4,000,000	-	0.02	April 30, 2023	1.33
3,000,000	3,000,000	0.40	November 1, 2023	1.84
420,000	420,000	0.25	November 1, 2023	1.84
<b>16,900,000</b>	<b>12,900,000</b>	<b>\$ 0.31</b>		<b>0.95</b>

## **11. 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 Company, shall not exceed 15% of the Company’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 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 Company. 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 years ended December 31, 2021 and 2020 comprised the following:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
<b>Stock Options (a)</b>	<b>\$ 525,811</b>	<b>\$ 104,001</b>

### **(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

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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, 2021 and December 31, 2020 are as follows:

	Number of Options	Weighted Average Exercise Price
<b>Balance, December 31, 2019</b>	<b>500,000</b>	<b>\$ 0.25</b>
Granted	1,225,000	0.34
<b>Balance, December 31, 2020</b>	<b>1,725,000</b>	<b>\$ 0.31</b>
Granted	1,375,000	0.28
Exercised (i)	(625,000)	0.26
<b>Balance, December 31, 2021</b>	<b>2,475,000</b>	<b>\$ 0.31</b>

- (i) The weighted average share price at the date of exercise of options exercised during the year ended December 31, 2021 was \$0.64 (2020 - not applicable).

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

	Year ended December 31, 2021	Year ended December 31, 2020
Share price at grant date (\$)	\$ 0.28	\$ 0.34
Exercise Price	\$ 0.28	\$ 0.34
Expected annual volatility	129% - 133%	138%
Expected life (in years)	5.00	5.00
Expected dividend yield	0%	0%
Risk-free interest rate	0.42% - 0.92%	0.27%
Fair value per option	\$ 0.24	\$ 0.30

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, 2021 was \$330,625 (2020 - \$365,050).

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
125,000	125,000	\$ 0.25	November 15, 2024	2.88
625,000	625,000	\$ 0.28	January 15, 2026	4.04

<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Weighted Average Remaining Contractual Life in Years</b>
500,000	500,000	\$ 0.28	September 22, 2026	4.73
1,225,000	478,750	\$ 0.34	November 10, 2031	9.87
<b>2,475,000</b>	<b>1,728,750</b>	<b>\$ 0.31</b>		<b>7.00</b>

**(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.

During the years ended December 31, 2021 and 2020, the Company did not issue any RSRs and there are no RSRs outstanding.

**(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 years ended December 31, 2021 and 2020, the Company did not issue any DSUs and there were no DSUs outstanding.

**12. 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.

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As at December 31, 2021 and 2020, 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.

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

	<b>December 31,</b>		
	<b>2021</b>	<b>FVTPL</b>	<b>Amortized costs</b>
<b>ASSETS</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash	58,805	58,805	-
Receivables	42,572	-	42,572
Due from related party	1,888,672	-	1,888,672
Lease receivable	2,986,444	-	2,986,444
Share subscription receivable	73,198	-	73,198
<b>LIABILITIES</b>			
Accounts payable and accrual liabilities	738,656	-	738,656
Due to related party	11,122	-	11,122
Notes payable	864,465	-	864,465
	<b>December 31,</b>		
	<b>2020</b>	<b>FVTPL</b>	<b>Amortized costs</b>
<b>ASSETS</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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
<b>LIABILITIES</b>			
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	-

For the years ended December 31, 2021 and 2020, the Company has no financial instruments measured at FVTOCI.

### **Capital and Risk Management**

The Company's objective and polices for managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company defines the components of its capital structure as being notes payables and shareholder's equity. The Company manages its capital structure and makes changes based on economic conditions, risks that impact the operations and future significant capital investment opportunities. In order to maintain or adjust its capital structure, the Company may raise additional debt financing.

The Company is exposed to a variety of financial risks by virtue of its activities: market risk, interest rate risk, liquidity risk and foreign currency risk. The Board of Directors has overall responsibility for the determination of the Company's capital and risk management objectives and policies while retaining ultimate responsibility for them. The Company's overall capital and risk management program has not changed throughout the period. It focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects

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on financial performance. Risk management is carried out by the finance department under policies approved by the Board of Directors. The finance department identifies and evaluates financial risks in close cooperation with management.

**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, 2021, all of the Company's financial liabilities have maturities of less than one year. As at December 31, 2021, the Company had cash of \$58,805 (2020 - \$136,553) and a working capital of \$429,035 (December 31, 2020 - working capital deficiency of \$1,276,856). Refer to note 1 for further discussion regarding going concern.

**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, 2021	December 31, 2020
<b>ASSETS</b>	<b>\$</b>	<b>\$</b>
Due from related party	1,888,672	1,868,318
Lease receivables	2,986,444	3,241,823
<b>LIABILITIES</b>		
Accounts payable and accrual liabilities	372,421	230,189
Due to related party	11,122	195,673
Notes payable	864,465	2,415,991
Lease obligation	3,018,323	3,286,164

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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 \$4,829 (2020 - \$50,894).

### 13. INCOME TAX

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

	Year ended December 31, 2021	Year ended December 31, 2020
<b>Loss before taxes</b>	<b>\$ (3,962,287)</b>	<b>\$ (6,600,105)</b>
Statutory income tax rate	27%	27%
<b>Expected recovery at statutory rate</b>	<b>\$ (1,070,000)</b>	<b>\$ (1,782,000)</b>
Increase (decrease) in taxes resulting from:		
Change in statutory, foreign tax, foreign exchange rates and other	(103,000)	13,000
Impact as a result of acquisition of subsidiaries	-	(245,000)
Permanent differences	32,000	1,495,000
Share issue cost	(109,000)	(67,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	216,000	43,000
Change in unrecognized deferred tax asset	1,034,000	543,000
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

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

	Year ended December 31, 2021	Year ended December 31, 2020
Deferred tax assets (liabilities)		
Share issue costs	\$ 153,000	\$ 94,000
Property and equipment	(56,000)	-
Intangible assets	410,000	295,000
Non-capital losses available for future period	1,811,000	459,000
<b>Total</b>	<b>\$ 2,318,000</b>	<b>\$ 848,000</b>
Unrecognized deferred tax assets	(2,318,000)	(848,000)
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

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, 2021	Expiry Date Range
<b>Temporary Differences</b>		
Share issue costs	568,000	2041 to 2045
Property and equipment	(265,000)	No expiry date
Intangible assets	1,954,000	No expiry date
Non-capital losses available for future period	7,007,000	2039 to 2041
Canada	5,650,000	2039 to 2041
USA	1,357,000	2039 to 2041

Year ended December 31, 2020	Expiry Date Range
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	Year ended	
	December 31, 2021	Expiry Date Range
<b>Temporary Differences</b>		
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	-	-

#### 14. SUPPLEMENTAL CASH FLOW INFORMATION

The following are non-cash investing and financing activities that occurred during the years ended December 31, 2021 and 2020

	December 31, 2021	December 31, 2020
Share subscription redeemed	\$ -	\$ 40,000
Share issuance costs – agent warrants	102,690	42,072
Prepaid share issuance costs	-	30,750
Movement from reserve on exercise of options	129,706	3,997
Movement from reserve on exercise of warrants	21,295	-
Accrued sublease payments receivable	-	359,675
Acquisition of New Leaf USA	-	2,602,800

During the year ended December 31, 2021, the Company made cash payments of \$nil (2020 - \$7,995) related to taxes and \$335,823 related to interest (2020 - \$250,961).

#### 15. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2021, the Company continued its ATM distribution efforts and has sold and issued an aggregate of 1,339,100 common shares resulting in total proceeds of \$119,011. During the period subsequent to December 31, 2021, the Company incurred total cash commissions of \$1,961 from the ATM Placements.