



Nextleaf Solutions Ltd.

Consolidated Financial Statements

September 30, 2024

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nextleaf Solutions Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Nextleaf Solutions Ltd. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2024 and 2023, and the consolidated statements of income (loss) and comprehensive income (loss), cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2024 and 2023, and its financial performance and its cash flows for the years then ended, in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our auditor's report.

Other Information

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

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



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

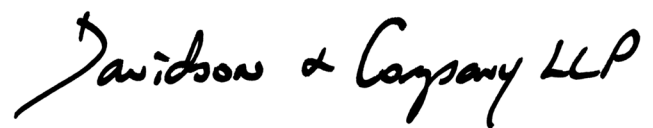
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Vancouver, Canada

Chartered Professional Accountants

January 28, 2025

Nextleaf Solutions Ltd.**Consolidated Statements of Financial Position****(Expressed in Canadian Dollars)****As at September 30, 2024 and September 30, 2023**

| | Note | September 30, 2024 \$ | September 30, 2023 \$ |
|---|------|-----------------------------|-----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | 438,536 | 898,899 |
| Receivables and prepayments | 3 | 1,951,307 | 1,656,430 |
| Inventory | 4 | 2,995,468 | 2,243,740 |
| | | 5,385,311 | 4,799,069 |
| Non-current assets | | | |
| Deposits | | 217,050 | 88,913 |
| Property and equipment | 5 | 2,732,526 | 3,371,686 |
| Intangible assets | 6 | 230,190 | 277,367 |
| | | 3,179,766 | 3,737,966 |
| Total assets | | 8,565,077 | 8,537,035 |
| Liabilities and shareholders' equity | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 9 | 3,642,730 | 3,913,608 |
| Customer deposits | | 32,714 | - |
| Lease liability - current | 5 | 77,882 | 65,053 |
| Government loan | 14 | - | 40,000 |
| | | 3,753,326 | 4,018,661 |
| Non-current liabilities | | | |
| Lease liability | 5 | 306,811 | 384,693 |
| Total liabilities | | 4,060,137 | 4,403,354 |
| Shareholders' equity | | | |
| Share capital | 8 | 26,806,424 | 26,225,580 |
| Reserves | 8 | 1,740,295 | 4,145,740 |
| Deficit | | (24,041,779) | (26,237,639) |
| Total shareholders' equity | | 4,504,940 | 4,133,681 |
| Total liabilities and shareholders' equity | | 8,565,077 | 8,537,035 |
| Nature of operations and going concern | 1 | | |
| Subsequent event | 16 | | |

Approved on behalf of the Board of Directors on January 28, 2025:

"Fred Bonner"

Director

"Sherry Boodram"

Director

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

Nextleaf Solutions Ltd.**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**
(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

| | Note | September 30, 2024 \$ | September 30, 2023 \$ |
|---|------|-----------------------------|-----------------------------|
| Revenue | 10 | 16,567,537 | 9,962,919 |
| Excise taxes | | (4,089,498) | (1,783,305) |
| Net revenue | | 12,478,039 | 8,179,614 |
| Cost of sales | | 8,735,478 | 5,869,334 |
| Gross profit | | 3,742,561 | 2,310,280 |
| Expenses | | | |
| Administrative expenses | | 473,692 | 395,495 |
| Amortization | 6 | 47,177 | 47,064 |
| Depreciation | 5 | 25,768 | 17,115 |
| Finance costs | 5 | 56,829 | 38,430 |
| Investor relations and marketing | | 811,861 | 408,193 |
| Professional fees and consulting | 9 | 338,556 | 241,594 |
| Research and operational supplies | | 287,115 | 132,282 |
| Salaries and fees, net | 9,14 | 1,874,177 | 998,639 |
| Share-based payments | 8,9 | 1,352,893 | - |
| | | (5,268,068) | (2,278,812) |
| Convertible debenture financing fee | 7 | - | (105,000) |
| Recovery of (loss provision on) receivables | 10 | 2,716 | (81,324) |
| Other income | 14 | 15,162 | - |
| Gain on settlement of accounts payable | 10 | 71,638 | 378,190 |
| | | 89,516 | 191,866 |
| Income (loss) and comprehensive income (loss) for the year | | (1,435,991) | 223,334 |
| Earnings (loss) per share | | | |
| Weighted average number of common shares outstanding: | | | |
| Basic # | 8 | 162,028,775 | 152,402,062 |
| Diluted # | 8 | 162,028,775 | 152,402,062 |
| Basic earnings (loss) per share | 8 | (0.01) | 0.00 |
| Diluted earnings (loss) per share | 8 | (0.01) | 0.00 |

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

Nextleaf Solutions Ltd.**Consolidated Statements of Cash Flows****(Expressed in Canadian Dollars)****For the years ended September 30, 2024 and September 30, 2023**

| | Note | September 30, 2024 \$ | September 30, 2023 \$ |
|---|------|-----------------------------|-----------------------------|
| Operating activities | | | |
| Income (loss) for the year | | (1,435,991) | 223,334 |
| Adjustments for: | | | |
| Amortization | | 47,177 | 47,064 |
| Depreciation (cost of sales and operating expenses) | 5 | 582,516 | 692,673 |
| Finance costs | | 56,829 | 38,430 |
| Shares issued for salaries and fees | 8 | 80,357 | - |
| Share-based payments | | 1,352,893 | - |
| Convertible note financing fee | | - | 105,000 |
| (Recovery of) loss provision on receivables | | (2,716) | 81,324 |
| Other income | | (10,000) | - |
| Gain on settlement of accounts payable | | (71,638) | (378,190) |
| Non-cash working capital items: | | | |
| Receivables and prepayments | | (292,161) | (873,474) |
| Inventory | | (626,695) | (670,450) |
| Deposits | | (128,137) | 58,360 |
| Accounts payable and accrued liabilities | | (199,240) | 1,551,384 |
| Customer deposits | | 32,714 | - |
| | | (614,092) | 875,455 |
| Investing activities | | | |
| Purchases of property and equipment | 5 | (68,389) | (23,562) |
| | | (68,389) | (23,562) |
| Financing activities | | | |
| Lease payments | 5 | (121,882) | (83,031) |
| Repayment of government loan | 14 | (30,000) | - |
| Repayment of convertible debenture | 7 | - | (247,679) |
| Issuance of common shares | 8 | 374,000 | - |
| | | 222,118 | (330,710) |
| Change in cash | | (460,363) | 521,183 |
| Cash, beginning of year | | 898,899 | 377,716 |
| Cash, end of year | | 438,536 | 898,899 |

Supplemental cash flow information

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

Nextleaf Solutions Ltd.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

| | Common shares # | Share capital \$ | Reserves \$ | Deficit \$ | Total \$ |
|---|--------------------|------------------------|------------------|---------------------|------------------|
| September 30, 2022 | 143,392,390 | 25,330,449 | 4,145,740 | (26,460,973) | 3,015,216 |
| Shares issued - conversion of convertible note | 15,386,030 | 861,231 | - | - | 861,231 |
| Shares issued on settlement of accounts payable | 678,000 | 33,900 | - | - | 33,900 |
| Income and comprehensive income for the year | - | - | - | 223,334 | 223,334 |
| September 30, 2023 | 159,456,420 | 26,225,580 | 4,145,740 | (26,237,639) | 4,133,681 |
| September 30, 2023 | 159,456,420 | 26,225,580 | 4,145,740 | (26,237,639) | 4,133,681 |
| Exercise of warrants | 4,675,000 | 374,000 | - | - | 374,000 |
| Re-allocated on expiry of options | - | - | (3,631,851) | 3,631,851 | - |
| Re-allocated on expiry of warrants | - | 126,487 | (126,487) | - | - |
| Shares issued - salaries and benefits | 535,714 | 80,357 | - | - | 80,357 |
| Share-based payments | - | - | 1,352,893 | - | 1,352,893 |
| Loss and comprehensive loss for the year | - | - | - | (1,435,991) | (1,435,991) |
| September 30, 2024 | 164,667,134 | 26,806,424 | 1,740,295 | (24,041,779) | 4,504,940 |

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

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

1. NATURE OF OPERATIONS AND GOING CONCERN

Nextleaf Solutions Ltd. ("Nextleaf" or the "Company") was incorporated under the laws of the Province of British Columbia on December 8, 2016. The Company's head office is located at #3 – 68 Schooner Street, Coquitlam, British Columbia, V3B 7B1 and its registered and records office is located at #600 – 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7. The Company's common shares trade on the Canadian Securities Exchange under the trading symbol "OILS".

The Company through its wholly-owned subsidiary, Nextleaf Labs Ltd. ("Labs"), is a licensed Canadian cannabis processor and biotech company, with a portfolio of federally regulated emerging consumer brands, cannabis derivative products, and high-purity and high-potency bulk ingredients. The Company manufactures several products, across various categories for white label clients and house brands. Formulated products and bulk ingredients are sold domestically to business-to-business (B2B) partners and exported to applicable international jurisdictions. With national distribution within Canada, the Company's brands are sold through both medical and recreational channels and includes its "Glacial Gold" brand and its "High Plains" house brand.

These annual consolidated financial statements (the "financial statements") are prepared on the assumption that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue in existence.

As at September 30, 2024, the Company had working capital of \$1,631,985 (September 30, 2023 – \$780,408). Although the Company has been profitable in certain historical fiscal quarters, and successful in raising funds to date, there can be no assurance that the Company will consistently generate sufficient revenue, profitability, and positive cash flows from operations, or that sufficient funding will continue to be available under terms acceptable to the Company. The continuance of operations is dependent on the Company continuing to generate profits and positive cash flows from commercial operations, and continuing to obtain financing on acceptable terms, if and as necessary. These conditions may cast significant doubt about the Company's ability to continue as a going concern.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of presentation

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

These financial statements have been prepared on an historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

All amounts in these financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Principles of consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

| | | |
|---------------------------|------|------------------------------|
| Nextleaf Innovations Ltd. | 100% | Extraction solutions company |
| Nextleaf Labs Ltd. | 100% | Licensed processor |

A subsidiary is an entity controlled by the Company and is included in these financial statements from the date that control commences until the date that control ceases. The accounting policies of a subsidiary are changed where necessary to align them with the policies adopted by the Company.

Revenue recognition

Revenue from the direct sale of cannabis products, or the provision of services to customers for a fixed price is recognized when the Company transfers the control of the good(s) to the customer upon delivery and acceptance by the customer. The Company recognizes revenue in an amount that reflects the consideration which the Company expects to receive taking into account the impact which may arise from any rights of return on sales, price concessions or similar obligations. Net revenue is presented net of excise taxes, sales taxes, estimated returns, allowances, and discounts.

At times, the Company may enter into contracts with customers where payment for the services provided by the Company is in the form of retention of a certain portion of the finished goods. In such instances, the consideration amount is variable is determined based on fair market values for the same or similar goods. As fair market values are readily available for cannabis concentrate, the level of estimation uncertainty is limited.

Excise taxes

Canada Revenue Agency ("CRA") levies excise taxes on the sale of medical and adult-use cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer. The excise taxes payable is the higher of (i) a flat-rate duty which is imposed when a cannabis product is packaged, and (ii) an ad valorem duty that is imposed when a cannabis product is delivered to the customer.

Excise tax calculated on edible cannabis products, cannabis extracts and cannabis topicals is calculated as a flat rate based on the quantity of total tetrahydrocannabinol (THC) contained in the final product. Revenue from sale of goods, as presented on the statements of income (loss) and comprehensive income (loss), represents revenue from the sale of goods, less applicable excise taxes.

Inventory and Cost of sales

Inventory is valued at the lower of cost and net realizable value. Cost of cannabis biomass is comprised of initial third-party acquisition costs, plus analytical testing costs. Costs of extracted cannabis oil inventory are comprised of initial acquisition costs of the biomass and all direct and indirect processing costs including labour related costs, consumables, materials, packaging supplies, facility costs, analytical testing costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value. When purchasing biomass, amounts due and payable by the Company prior to the receipt of inventory are accrued as inventory deposits.

Cost of sales represents costs related to manufacturing and distribution of the Company's products and services. Costs primarily include raw materials, direct labour, overhead (utilities and depreciation of production equipment and facilities), unallocated overhead from idle capacity, packaging, and shipping. The Company recognizes the cost of sales when the associated inventory is sold or written-off.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)**Government assistance**

Government assistance consisting of investment tax credits, and relief payments pursuant to Government programs are recorded as an offset to expenses within profit or loss when they relate to a specific item(s) of expense, otherwise they are recorded separately within profit or loss. Amounts are recognized when the grant is received, or when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

Material accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at each reporting date and the reported amounts of income and expenses during each reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The information about significant areas of estimation uncertainty considered by management in preparing these financial statements is as follows:

Fair value of stock options and compensatory warrants

Determining the fair value of stock options and compensatory warrants (finders' warrants or warrants issued to creditors) requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the fair value of the Company's common shares, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity.

Useful lives of property and equipment and intangible assets

The estimated useful lives of property and equipment and intangible assets are reviewed by management and adjusted if necessary. To estimate their useful life, management must use its past experience with the same or similar assets, review industry practices for similar pieces of equipment and/or apply statistical methods to assist in its determination of useful life.

Collectability of financial assets

The estimate of the collectability of financial assets is subject to estimation as to the credit-risk and likelihood of default by the counterparty. Refer to the disclosure under "Credit risk" within Note 10 for details.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)**Material accounting judgments, estimates and assumptions (continued)***Inventory costing*

The estimate of cost allocations to inventory including, but not limited to, allocations of fixed and variable overheads, and labour are subject to estimation which would impact the measurement of inventory, cost of sales, and gross margin.

Non-monetary transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance, or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up and adjusted by the fair value of any monetary consideration received or given. When the asset received or consideration given up is shares in an actively traded market, the market value of those shares will be considered fair value. When non-cash transactions involving the issuance of common shares of the Company are entered into with employees and those providing similar services, the transactions are measured at the fair value of the consideration given up, being the common shares, using market prices on the date of issuance.

The information about significant areas of judgment considered by management in preparing these financial statements is as follows:

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Going concern

The assessment of the Company's ability to continue as a going concern as discussed in Note 1 involves judgment regarding future funding available for its operations and working capital requirements.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)**Property and equipment**

Property and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, if applicable.

Depreciation is recognized using the following rates/terms, intended to depreciate the cost of equipment, less its residual values, if any, over its estimated useful lives:

- Extraction and manufacturing equipment 20% declining balance
- Leasehold improvements Over the term of the lease
- Right-of-use asset Over the term of the lease
- Furniture and equipment 20% declining balance

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the period they are incurred. Any gain or loss on the disposal or retirement of equipment is recognized in profit or loss.

Research and development costs

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss (research) as incurred. Investment tax credits related to current expenditures are included in the determination of profit or loss as the expenditures are incurred when there is reasonable assurance they will be realized. The Company expenses legal fees incurred on application costs relating to its pending patents as incurred (professional fees and consulting).

Development activities involve a plan or design to produce new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset.

These criteria will be deemed by the Company to have been met when the underlying asset is ready to be commercialized along with a determination that the criteria to capitalize development expenditures have been met, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred. Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)**Intangible assets**

Intangible assets with finite lives are measured at cost less accumulated amortization and impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values, and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

Indefinite life intangible assets are measured at cost less any impairment losses. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired. The Company does not have any intangible assets with indefinite lives.

Since receiving the Standard Processing Licence from Health Canada (September 2019), the Company capitalizes filing fees for the issuance of patents to intangible assets.

The Company amortizes its intangible assets over their estimated useful lives as follows:

- Issued patents 20 years
- Licences Over the term of the facility lease
- Brand 10 years

Impairment of non-financial assets

The carrying amount of the Company's long-lived assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash generating units "CGU"). The recoverable amount of an asset group is the higher of its fair value less costs to sell, and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity, as share issue costs. Common shares issued for consideration other than cash, are valued based on their fair value on the date the shares are issued if it is impracticable to estimate reliably the fair value of the goods or services received.

The Company has adopted a residual value method with respect to the measurement of warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded within reserves. When a warrant expires, the initial recorded value is reversed from reserves and re-allocated within shareholders' equity.

Share-based payment transactions

The Company has a stock option plan that provides for the granting of options to Officers, Directors, employees, and consultants to acquire shares of the Company.

Options granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model considering the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Over the vesting period, share-based payments are recorded as an expense and as reserves. When options are exercised the consideration received is recorded as share capital and the related share-based payments originally recorded as reserves are transferred to share capital. When an option is cancelled or expires, the initial recorded value is reversed from reserves and credited to deficit.

Warrants

The Company recognizes warrants issued on a compensatory basis at fair value which is determined using the Black-Scholes option pricing model considering the terms and conditions upon which the warrants were issued. When a modification occurs in respect of warrants originally issued as attached to units and measured in accordance with the residual value described above, the Company considers whether any value was initially recognized on the warrant issuance and recognizes the modification of warrants in an equivalent manner.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that net income (loss) attributable to common shareholders are adjusted for the dilutive effect of warrants and stock options. Under this method, the Company assumes that outstanding dilutive stock options and warrants were exercised and that the proceeds from such exercises (after adjustment of any unvested portion of stock options) were used to acquire common shares at the average market price during the reporting periods.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)**Income taxes**

Income tax comprises current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in shareholders' equity.

Current income tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, adjusted for any amendments to tax payable in respect of previous years.

Deferred income tax is provided for, based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Financial instruments

For the periods presented, the Company's financial instruments are classified within the following categories: fair value through profit or loss ("FVTPL"), financial assets at amortized cost, and other financial liabilities. The classification depends on the purpose for which the financial assets or liabilities were acquired. Management determines the classification of financial assets and liabilities at initial recognition. The Company accounts for non-derivative financial assets and liabilities as follows:

Recognition

The Company recognizes financial assets and financial liabilities on the date the Company becomes a party to the contractual provisions of the instruments.

Classification

The Company classifies its financial instruments based on the purpose for which they were acquired, in one of the following categories: FVTPL, amortized cost, FVOCI, and other financial liabilities. The fair value and classification of the Company's financial instruments are detailed in Note 10.

Impairment of financial assets

An 'expected credit loss' ("ECL") model applies to financial assets measured at amortized cost. The Company has certain financial assets that are subject to the ECL model (see, "Credit risk" within Note 10).

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets, other than those classified at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that one or more events have occurred after the initial recognition of the financial asset (a "loss event"), and that loss event has an impact on the estimated future cash flows of that asset. Objective evidence may include significant financial difficulty of the debtor/obligor and/or delinquency in payment. When impairment has occurred, the cumulative loss is recognized in profit or loss.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment losses may be reversed in subsequent periods.

Compound financial instruments

Compound financial instruments issued by the Company are comprised of convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component representing the equity conversion feature is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Embedded derivatives

Embedded derivatives are contained in non-derivative host contracts and are treated as separate derivatives when they meet the definition of a derivative, and their risks and characteristics are not closely related to those of the host contracts. Embedded derivatives are recorded at fair market value with mark-to-market adjustments recorded in profit or loss. The Company's convertible debenture did not give rise to accounting for an embedded derivative.

New accounting policies

Certain pronouncements have been issued by the IASB or IFRIC that are effective for the Company's accounting period beginning on October 1, 2024. The Company has reviewed these updates and determined that none are applicable or consequential to the Company and have been excluded from discussion within these material accounting policies. Additionally, the Company did not adopt any new accounting policies during the year ended September 30, 2024.

Standards issued but not yet effective

IFRS 18, *Presentation and Disclosure in Financial Statements* ("IFRS 18"), which will replace IAS 1, *Presentation of Financial Statements* aims to improve how companies communicate in their financial statements, with a focus on information about financial performance in the statement of profit or loss, in particular additional defined subtotals, disclosures about management-defined performance measures and new principles for aggregation and disaggregation of information. IFRS 18 is accompanied by limited amendments to the requirements in IAS 7 *Statement of Cash Flows*. IFRS 18 is effective from January 1, 2027. Companies are permitted to apply IFRS 18 before that date.

The Company has not yet determined the impact of these amendments on its consolidated financial statements.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

3. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments comprise the following:

| | September 30, 2024 | September 30, 2023 |
|-----------------------|-------------------------------|-----------------------|
| | \$ | \$ |
| Prepaid expenses | 325,966 | 99,855 |
| Sales tax recoverable | - | 14,965 |
| Trade receivables | 1,625,341 | 1,541,610 |
| | 1,951,307 | 1,656,430 |

4. INVENTORY

Inventory is comprised of the following:

| | September 30, 2024 | September 30, 2023 |
|--|-------------------------------|-----------------------|
| | \$ | \$ |
| Production work in progress - distillate | 48,529 | 412,047 |
| Cannabis products | 1,275,835 | 744,717 |
| Supplies and hardware | 1,362,370 | 754,178 |
| Finished goods - distillate | 308,734 | 332,798 |
| | 2,995,468 | 2,243,740 |

Inventory expensed to cost of sales during the year ended September 30, 2024, totaled \$7,894,370 (2023 - \$4,859,276).

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

5. PROPERTY AND EQUIPMENT

| | Extraction and manufacturing equipment \$ | Leasehold improvements \$ | Right-of-use asset \$ | Furniture and equipment \$ | Total \$ |
|---------------------------------|--|---------------------------------|-----------------------------|----------------------------------|------------------|
| Cost | | | | | |
| September 30, 2022 | 3,581,451 | 3,108,837 | 380,160 | 203,876 | 7,274,324 |
| Additions | 18,533 | - | 175,713 | 5,029 | 199,275 |
| September 30, 2023 | 3,599,984 | 3,108,837 | 555,873 | 208,905 | 7,473,599 |
| Accumulated depreciation | | | | | |
| September 30, 2022 | 2,129,606 | 992,299 | 130,248 | 121,987 | 3,374,140 |
| Depreciation ⁽¹⁾ | 291,588 | 367,085 | 52,215 | 16,885 | 727,773 |
| September 30, 2023 | 2,421,194 | 1,359,384 | 182,463 | 138,872 | 4,101,913 |
| Cost | | | | | |
| September 30, 2023 | 3,599,984 | 3,108,837 | 555,873 | 208,905 | 7,473,599 |
| Additions | 39,135 | 16,780 | - | 12,474 | 68,389 |
| September 30, 2024 | 3,639,119 | 3,125,617 | 555,873 | 221,379 | 7,541,988 |
| Accumulated depreciation | | | | | |
| September 30, 2023 | 2,421,194 | 1,359,384 | 182,463 | 138,872 | 4,101,913 |
| Depreciation ⁽¹⁾ | 241,917 | 371,256 | 78,613 | 15,763 | 707,549 |
| September 30, 2024 | 2,663,111 | 1,730,640 | 261,076 | 154,635 | 4,809,462 |
| Net book value | | | | | |
| September 30, 2023 | 1,178,790 | 1,749,453 | 373,410 | 70,033 | 3,371,686 |
| September 30, 2024 | 976,008 | 1,394,977 | 294,797 | 66,744 | 2,732,526 |

⁽¹⁾ Depreciation for the years ended September 30, 2024 and September 30, 2023, is allocated as follows:

| | September 30, 2024 \$ | September 30, 2023 \$ |
|--------------------|-----------------------------|-----------------------------|
| Cost of sales | 556,748 | 675,558 |
| Inventory | 125,033 | 35,100 |
| Operating expenses | 25,768 | 17,115 |
| | 707,549 | 727,773 |

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

5. PROPERTY AND EQUIPMENT (continued)**Right-of-use asset and lease liability**

The Company has an agreement to lease its licensed processing facility and corporate office in Coquitlam, BC. The Company has determined that the agreement is a lease contract as defined under IFRS 16 – *Leases* (“IFRS 16”). The Company’s lease commenced on July 1, 2018, and was renewed effective July 1, 2023 until June 30, 2028. The renewal during the year ended September 30, 2023, resulted in a modified lease liability calculated with a discount rate of 13.5% (former lease liability was calculated with a discount rate of 10%).

A reconciliation of the carrying amount of the lease liability as at September 30, 2024 and September 30, 2023, and changes during years then ended is as follows:

| | September 30, 2024 | September 30, 2023 |
|--|-------------------------------|-----------------------|
| | \$ | \$ |
| Beginning of year | 449,746 | 318,634 |
| Lease payments | (121,882) | (83,031) |
| Extension of lease | - | 175,713 |
| Lease interest (finance costs) | 56,829 | 38,430 |
| End of year | 384,693 | 449,746 |
| Current portion of lease liability | 77,882 | 65,053 |
| Non-current portion of lease liability | 306,811 | 384,693 |
| | 384,693 | 449,746 |
| Maturity analysis - contractual undiscounted cash flows | | |
| Less than one year | 125,154 | 121,882 |
| One to five years | 364,010 | 489,164 |
| | 489,164 | 611,046 |

During the year ended September 30, 2024, the Company incurred \$44,088 (2023 - \$35,415) in variable lease payments allocated between cost of sales and rent expense (administrative expenses) that were not included within the measurement of the lease liability.

Short-term leases are leases with a lease term of twelve months or less. As at September 30, 2024 and September 30, 2023, the Company did not have any low value leases or short-term leases.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

6. INTANGIBLE ASSETS

A continuity of intangible assets is as follows:

| | Issued patents \$ | Licences \$ | Brand \$ | Total \$ |
|---------------------------------|-------------------------|----------------|----------------|----------------|
| Cost | | | | |
| September 30, 2022 | 40,352 | 270,325 | 110,000 | 420,677 |
| September 30, 2023 | 40,352 | 270,325 | 110,000 | 420,677 |
| Accumulated amortization | | | | |
| September 30, 2022 | 6,973 | 74,024 | 15,249 | 96,246 |
| Amortization | 2,018 | 34,046 | 11,000 | 47,064 |
| September 30, 2023 | 8,991 | 108,070 | 26,249 | 143,310 |
| Cost | | | | |
| September 30, 2023 | 40,352 | 270,325 | 110,000 | 420,677 |
| September 30, 2024 | 40,352 | 270,325 | 110,000 | 420,677 |
| Accumulated amortization | | | | |
| September 30, 2023 | 8,991 | 108,070 | 26,249 | 143,310 |
| Amortization | 2,018 | 34,159 | 11,000 | 47,177 |
| September 30, 2024 | 11,009 | 142,229 | 37,249 | 190,487 |
| Net book value | | | | |
| September 30, 2023 | 31,361 | 162,255 | 83,751 | 277,367 |
| September 30, 2024 | 29,343 | 128,096 | 72,751 | 230,190 |

7. CONVERTIBLE DEBENTUREOriginal terms on issuance:

In 2021, the Company executed a Securities Purchase Agreement (the "SPA") with a creditor (the "holder"), whereby the Company issued a senior secured convertible note (the "Note") and warrants to the holder for gross proceeds of \$3,000,000 (the "cash value"). The initial principal value of the Note was \$3,300,000 whereby \$300,000 of which was initially recognized as a deferred financing charge (liability). The Note was secured by a security interest subordinate to all existing and future property undertakings (during the term of the Note) by the Company and by assignment of collateral by way of a General Security Agreement over the assets of the business. After four amendments to the Note, the Note was settled in full during the year ended September 30, 2023.

In connection with the original issuance of the Note, the Company issued a total of 6,875,000 warrants to the holder, which after an amendment resulting in a replacement for an equal number of warrants, the warrants were exercisable at \$0.08 each with an expiry of September 21, 2027. There was no value attributed to the warrants on original issuance, and no amount was recognized on the replacement of these warrants in 2022.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

7. CONVERTIBLE DEBENTURE (continued)Amendments to the Note:

On December 30, 2022, the Note was amended a fourth time (the "Fourth Amendment") (see previous amendments below from fiscal 2022) whereby the maturity date was extended, an additional forbearance fee of \$75,000 was recognized as an increase to the principal balance of the Note, and the conversion price was amended to \$0.055 per share. Additionally, a \$30,000 administration fee was added to the Note resulting in an aggregate convertible note financing fee of \$105,000 recognized during the year ended September 30, 2023.

In 2022, the Company and the holder executed three amendments to the Note which collectively resulted in: (i) a forbearance fee of \$100,000 recognized as an increase to the principal balance of the Note; (ii) the issuance of 1,000,000 warrants to the holder exercisable at \$0.08 each and expiring on September 21, 2027; and (iii) the cancellation of the 6,875,000 warrants originally issued and a replacement of an equal number of warrants (as described above). All amendments to the Note during the year ended September 30, 2022 resulted in an aggregate \$147,700 convertible note financing fee recognized during the year then ended.

Conversions of the Note:

During the year ended September 30, 2023, the Company issued 15,386,030 common shares to the holder pursuant to the conversion of principal totaling \$861,231, for full and final settlement of the Note prior to its June 1, 2023 maturity date.

A reconciliation of the carrying amount of the convertible debenture as at September 30, 2024 and September 30, 2023, and changes during the years then ended is as follows:

| | Liability | Deferred financing cost | Total |
|---|------------------|------------------------------------|--------------|
| | \$ | \$ | \$ |
| Balance, September 30, 2022 | 1,003,910 | - | 1,003,910 |
| Debt financing fee | 105,000 | - | 105,000 |
| Repayments | (247,679) | - | (247,679) |
| Conversion to common shares | (861,231) | - | (861,231) |
| Balance, September 30, 2023 and September 30, 2024 | - | - | - |

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

8. SHAREHOLDERS' EQUITY

The authorized share capital of the Company consists of unlimited common shares without par value. All issued shares are fully paid.

Issued and outstanding

Transactions involving the issuance of share capital during the year ended September 30, 2024:

- Between February and April 2024, the Company issued 4,675,000 common shares upon the exercise of warrants at a price of \$0.08 each for proceeds of \$374,000.
- On March 1, 2024, the Company issued 535,714 common shares, with a fair value of \$80,357 (\$0.15 each), to certain employees and executives of the Company for services. This amount was recognized within salaries and benefits during the year ended September 30, 2024.

Transactions involving the issuance of share capital during the year ended September 30, 2023:

- Between January and May 2023, the Company issued 15,386,030 common shares to the holder of the Note (Note 7) in respect of the conversion of \$861,231 of the principal value of the Note, for full and final settlement.
- In February 2023, the Company issued 678,000 common shares at a fair value of \$33,900 to a consultant of the Company in settlement of accounts payable. No gain or loss was recognized on settlement of the accounts payable.

Employee Equity Participation Plan

In 2020, the Company implemented an Employee Equity Participation Plan (the "Plan"). The Plan is fully voluntary and permits non-executive employees to receive common shares of the Company in lieu of a portion of their cash compensation. As at September 30, 2024, 244,444 common shares of the Company (September 30, 2023 – 244,444) have been issued to non-executive employees under the Plan in previous years.

No shares were issued under the Plan during years ended September 30, 2024 and September 30, 2023.

Shareholder Rights Plan

In November 2023, the Company adopted a shareholder rights plan (the "Rights Plan") that provides for the issuance of one right for each outstanding common share of the Company. Under the terms of the Rights Plan, any bid that meets certain criteria intended to protect the interests of all shareholders will be deemed a "permitted bid". These criteria require, among other things, that the bid be made by means of a take-over bid circular to all holders of voting shares other than the offeror under the bid, and be left open for at least 105 days. In the event a take-over bid does not meet the permitted requirements of the Rights Plan, the rights issued under the Rights Plan will entitle shareholders, other than any shareholder or shareholders involved in the take-over bid, to purchase additional common shares of the Company at a specified exercise price which is a substantial discount to the market price. The Rights Plan was approved by the Company's shareholders in December 2023.

Stock options

The Company has adopted a stock option plan (the "Plan") which provides eligible Directors, Officers, employees, and consultants with the opportunity to acquire common shares of the Company. The maximum number of common shares issuable under the Plan shall not exceed 20% of the number of common shares of the Company issued and outstanding as of each award date, inclusive of all common shares reserved for issuance pursuant to previously granted stock options. The stock options have a maximum term of five years from the date of grant, and vest over periods as determined by the Board of Directors. The exercise price of stock options granted under the Plan will be determined by the Board of Directors but may not be less than the closing market price of the Company's common shares on the date of grant.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

8. SHAREHOLDERS' EQUITY (continued)

Stock options (continued)

A summary of the status of the Company's stock options as at September 30, 2024 and September 30, 2023, and changes during the years then ended is as follows:

| | Year ended September 30, 2024 | | Year ended September 30, 2023 | |
|---|----------------------------------|--|----------------------------------|--|
| | Options # | Weighted average exercise price \$ | Options # | Weighted average exercise price \$ |
| Options outstanding, beginning of year | 16,120,000 | 0.35 | 16,120,000 | 0.35 |
| Granted | 9,925,000 | 0.14 | - | - |
| Expired/Cancelled | (14,310,000) | 0.35 | - | - |
| Options outstanding, end of year | 11,735,000 | 0.17 | 16,120,000 | 0.35 |

As at September 30, 2024, the Company has stock options outstanding and exercisable as follows:

| | Options outstanding # | Options exercisable # | Weighted average exercise price \$ | Expiry date | Weighted average remaining life (years) |
|-----|-----------------------------|-----------------------------|--|-------------------|---|
| (1) | 150,000 | 150,000 | 0.50 | October 16, 2024 | 0.04 |
| | 250,000 | 250,000 | 0.25 | December 10, 2025 | 1.19 |
| | 390,000 | 390,000 | 0.35 | January 13, 2026 | 1.29 |
| | 160,000 | 160,000 | 0.35 | February 15, 2026 | 1.38 |
| | 790,000 | 790,000 | 0.28 | August 4, 2026 | 1.84 |
| | 70,000 | 70,000 | 0.18 | April 19, 2027 | 2.55 |
| | 9,925,000 | 9,925,000 | 0.14 | March 1, 2029 | 4.42 |
| | 11,735,000 | 11,735,000 | 0.17 | | 3.96 |

(1) These stock options subsequently expired unexercised.

The Company recorded the fair value of the stock options granted during the year ended September 30, 2024, using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

| | September 30, 2024 |
|---|-----------------------|
| Risk-free interest rate | 3.50% |
| Expected life of options (years) | 5.00 |
| Expected volatility | 100% |
| Dividend rate | 0% |
| Weighted average fair value of per option granted | \$ 0.11 |

Total share-based payment expense incurred for the year ended September 30, 2024, was \$1,352,893 (2023 - \$nil) which includes \$1,054,288 for stock options that vested during the period, and \$298,605 relating to the issuance of warrants.

During the year ended September 30, 2024, 13,035,000 stock options expired unexercised, and 1,275,000 stock options were cancelled. Accordingly, their original fair value of \$3,631,851 was reversed from reserves and credited to deficit.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

8. SHAREHOLDERS' EQUITY (continued)

Warrants

As an incentive to complete private placements, the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to warrants attached to units sold in completed private placements. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model. Additionally, warrants have been issued as an incentive to complete convertible debenture financings which are fair valued using the Black-Scholes option pricing model and allocated to the equity component of the convertible debenture on a relative fair value basis with the equity conversion feature.

A summary of the Company's common share purchase warrants as at September 30, 2024 and September 30, 2023, and changes during the years then ended is as follows:

| | Year ended September 30, 2024 | | Year ended September 30, 2023 | |
|--|----------------------------------|--|----------------------------------|--|
| | Warrants # | Weighted average exercise price \$ | Warrants # | Weighted average exercise price \$ |
| Warrants outstanding, beginning of year | 24,568,712 | 0.21 | 24,568,712 | 0.21 |
| Issued | 3,675,000 | 0.14 | - | - |
| Exercised | (4,675,000) | 0.08 | - | - |
| Expired | (16,693,712) | 0.27 | - | - |
| Warrants outstanding, end of year | 6,875,000 | 0.11 | 24,568,712 | 0.21 |

The following table summarizes information about the warrants outstanding and exercisable as at September 30, 2024:

| Warrants # | Weighted average exercise price \$ | Expiry Date | Weighted average remaining life (years) |
|------------------|--|--------------------|---|
| 2,200,000 | 0.08 | September 21, 2027 | 2.98 |
| 1,000,000 | 0.08 | September 21, 2027 | 2.98 |
| 3,675,000 | 0.14 | September 21, 2027 | 2.98 |
| 6,875,000 | 0.11 | | 2.98 |

During the year ended September 30, 2024, certain warrants that were originally issued as compensatory warrants expired unexercised. Accordingly, their original fair value of \$126,487 was reversed from reserves and credited to share capital.

During the year ended September 30, 2024, the Company issued 3,675,000 warrants on a compensatory basis with a fair value of \$298,605 which is included in share-based payments expense for the year then ended. The Company recorded the fair value of the warrants issued using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

| | September 30, 2024 |
|---|-----------------------|
| Risk-free interest rate | 4.12% |
| Expected life of warrants (years) | 3.43 |
| Expected volatility | 100% |
| Dividend rate | 0% |
| Weighted average fair value of per warrant issued | \$ 0.08 |

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

8. SHAREHOLDERS' EQUITY (continued)**Reserves**

Reserves are comprised of the accumulated fair value of stock options recognized as share-based payments, and the fair value of finders' or brokers' warrants issued on private placements and as other forms of consideration. Reserves are increased by the fair value of these items on vesting/issuance and are reduced by corresponding amounts when stock options or warrants expire, are exercised, or are cancelled.

| | Stock options \$ | Warrants \$ | Total \$ |
|---------------------------|---------------------------------|------------------------|---------------------|
| September 30, 2022 | 3,971,746 | 173,994 | 4,145,740 |
| September 30, 2023 | 3,971,746 | 173,994 | 4,145,740 |
| September 30, 2023 | 3,971,746 | 173,994 | 4,145,740 |
| Options expired | (3,631,851) | - | (3,631,851) |
| Options vesting | 1,054,288 | - | 1,054,288 |
| Warrants issued | - | 298,605 | 298,605 |
| Warrants expired | - | (126,487) | (126,487) |
| September 30, 2024 | 1,394,183 | 346,112 | 1,740,295 |

Earnings (loss) per share

The calculation of basic and diluted earnings (loss) per share for the years ended September 30, 2024 and September 30, 2023, is based on the following:

| | Years ended September 30, | |
|---|----------------------------------|--------------------|
| | 2024 | 2023 |
| Income (loss) for the year | \$ (1,435,991) | \$ 223,334 |
| Weighted average number of common shares outstanding - basic | 162,028,775 | 152,402,062 |
| Dilutive effect of stock options and warrants | - | - |
| Weighted average number of common shares outstanding - diluted | 162,028,775 | 152,402,062 |
| Basic earnings (loss) per share \$ | \$ (0.01) | \$ 0.00 |
| Diluted earnings (loss) per share \$ | \$ (0.01) | \$ 0.00 |

The calculation of basic earnings per share for the year ended September 30, 2023 was based on the income attributable to common shareholders, and the weighted average number of common shares outstanding. The calculation of diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding, if dilutive. During the year ended September 30, 2023, none of the stock options or warrants had a dilutive impact.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

9. RELATED PARTY TRANSACTIONS

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and Corporate Officers, and companies controlled by them.

Key management personnel compensation

The remuneration of key management for the years ended September 30, 2024 and September 30, 2023, is as follows:

| | September 30, 2024 | September 30, 2023 |
|--|-------------------------------|-----------------------|
| | \$ | \$ |
| Directors' fees (professional fees and consulting) | 47,300 | 33,000 |
| Salaries and fees (paid or accrued) | 218,931 | 361,654 |
| | 266,231 | 394,654 |

During the year ended September 30, 2024, 357,143 common shares with a fair value of \$53,571 (\$0.15 each) were issued for executive salaries and fees. This amount was recognized within salaries and benefits for past services during the year ended September 30, 2024.

During the year ended September 30, 2024, the Company granted 2,300,000 stock options to officers and directors of the Company exercisable at \$0.14 each which vested immediately. Accordingly, share-based payments expense of \$244,319 was recognized on grant.

Related party balances

As at September 30, 2024 and September 30, 2023, related party balances are as follows:

| | September 30, 2024 | September 30, 2023 |
|--|-------------------------------|-----------------------|
| | \$ | \$ |
| Balances included in accounts payable and accrued liabilities: | | |
| Directors' fees | - | 49,300 |
| Management fees | - | 192,683 |
| | - | 241,983 |

| | September 30, 2024 | September 30, 2023 |
|----------------------------------|-------------------------------|-----------------------|
| | \$ | \$ |
| Prepaid expenses | | |
| Directors' fees | 1,000 | - |
| Professional fees and consulting | 6,875 | - |
| | 7,875 | - |

On September 8, 2023, the service contract between the Company and a company controlled by Paul Pedersen, former CEO, was terminated. Mr. Pedersen ceased to be a director of Nextleaf on December 19, 2023, as he was not re-elected at Nextleaf's Annual General Meeting of Shareholders held on that date. The balance payable to Mr. Pedersen as at September 30, 2023 remains presented in the table above, for informational purposes.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

10. FINANCIAL INSTRUMENTS**Fair value**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the assets or liability either directly or indirectly; and
- Level 3 - Inputs that are not based on observable market data.

Classification of financial instruments

| Financial assets: | Classification: | Subsequent measurement: |
|----------------------------|------------------------|--------------------------------|
| Cash | Amortized cost | Amortized cost |
| Trade receivables (Note 3) | Amortized cost | Amortized cost |
| Deposits | Amortized cost | Amortized cost |

| Financial liabilities: | Classification: | Subsequent measurement: |
|--|-----------------------------|--------------------------------|
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost |
| Customer deposits | Other financial liabilities | Amortized cost |
| Lease liability | Other financial liabilities | Amortized cost |
| Government loan | Other financial liabilities | Amortized cost |

The Company's financial instruments approximate their fair values. The carrying values of cash, trade receivables, deposits, accounts payable and accrued liabilities, and government loan all approximate their fair values due to their short-term nature. The carrying value of the Company's lease liability approximates fair value as it bears a rate of interest commensurate with market rates.

Economic dependence and revenue from sale of goods*Economic dependence*

Economic dependence risk refers to the potential risk of relying on a small number of customers, which can significantly impact the Company's financial performance. For the year ended September 30, 2024, the Company's cannabis concentrate sales (sale of bulk distillate) and product sales were derived from multiple customers. However, three major customers collectively accounted for a significant portion of total revenue, per below. Together, these customers represented approximately 73% of the Company's total revenue.

- Customer A: 50% (2023 – 46%)
- Customer B: 12%
- Customer C: 11%

Revenue from sale of goods and services

The Company disaggregated its revenues from the sale of goods between sales of bulk distillate, branded (Glacial Gold) vape pens, oils, and softgels ("branded extract products"), and private label which includes toll processing and other services. Each type of revenue is produced by a single operating/production division.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

10. FINANCIAL INSTRUMENTS (continued)

Economic dependence and revenue from sale of goods (continued)

Revenue from sale of goods and services (continued)

| Revenue stream | Year ended September 30, 2024 | | | | Year ended September 30, 2023 | | | |
|------------------|----------------------------------|--------------------------------|------------------|-------------------|----------------------------------|--------------------------------|------------------|------------------|
| | Bulk distillate | Branded extract products | Private label | Total | Bulk distillate | Branded extract products | Private label | Total |
| Wholesale | 1,480,439 | 13,437,803 | 1,649,295 | 16,567,537 | 1,988,509 | 6,149,366 | 1,825,044 | 9,962,919 |
| British Columbia | 322,358 | 8,250,008 | 867,452 | 9,439,818 | 244,661 | 4,585,757 | 154,077 | 4,984,495 |
| Rest of Canada | 1,158,081 | 5,187,795 | 781,843 | 7,127,719 | 1,743,848 | 1,563,609 | 1,670,967 | 4,978,424 |
| Total | 1,480,439 | 13,437,803 | 1,649,295 | 16,567,537 | 1,988,509 | 6,149,366 | 1,825,044 | 9,962,919 |

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. As at September 30, 2024, credit risk for the Company arises from cash, trade receivables, and deposits. The carrying amount of these financial assets represents the maximum credit exposure as at September 30, 2024.

Cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk on cash is considered insignificant. As at September 30, 2024 the Company holds certain trade receivables that are aged in excess of 90 days to which management has determined the credit risk to be low.

Impairment of financial assets

The Company has the following financial assets that are subject to the expected credit loss model:

- Trade receivables; and
- Deposits.

While cash is also subject to the impairment requirements of IFRS 9, the risk is insignificant.

The Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for its trade receivables, and deposits. The Company applies the general approach using practical expedients to loans receivable which involves recognition at each reporting date of a loss allowance based on a 12-month expected credit loss model without the requirement to re-assess whether any significant increases in credit risk have occurred at each reporting date.

To measure the expected credit losses, trade receivables, and deposits are grouped by debtor, and each debtor's circumstances are reviewed. The expected loss amount, if any, is based on historical payment profiles, and the corresponding historical credit losses experienced within specific periods for the debtors.

During the year ended September 30, 2024, the Company recognized a net recovery of historical loss provisions associated with certain debtors of \$2,716 (2023 - \$nil).

During the year ended September 30, 2024, the Company did not recognize any loss provisions. During the year ended September 30, 2023, the Company recognized loss provisions totaling \$81,324 in respect of credit losses associated with two debtors.

During the year ended September 30, 2024, the Company recorded a gain on settlement of accounts payable totalling \$71,638 (2023 - \$378,190) which included the forgiveness of accounts payable involving four vendors.

Amounts are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, failure of a debtor to engage in a repayment plan with the Company (if applicable), and failure by the debtor to make contractual payments for a period of greater than 120 days past due, or shorter if specific circumstances suggest otherwise.

Impairment losses are presented as loss provision on receivables. Subsequent recoveries of amounts previously written-off are credited against the same line item and presented as loss recovery on receivables.

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

10. FINANCIAL INSTRUMENTS (continued)**Liquidity risk**

The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company has been successful in raising equity financing in the past, however, there is no assurance that it will be able to do so in the future. Refer to Note 1 for disclosures on the Company's working capital and ability to continue as a going concern.

Market risk

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk as follows:

(i) Currency risk

Currency risk is the risk of change in profit or loss that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to currency risk as it incurs transactions in the United States dollar.

As at September 30, 2024, the Company held cash, and accounts payable and accrued liabilities in United States dollars. A 10% change in the exchange rate between the United States dollar and the Canadian dollar, would have impacted loss and comprehensive loss for the year by approximately \$6,000 (2023 - \$13,000).

(ii) Interest rate risk

The Company is not exposed to interest rate risk because it does not have any assets or liabilities subject to variable rates of interest.

(iii) Price risk

Equity price risk is defined as the potential adverse impact on the Company's results of operations and the ability to obtain financing, due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant. The Company is also subject to price risk in respect of the raw materials acquired which fluctuations may also be significant and impact future operating results.

11. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the years ended September 30, 2024 and September 30, 2023, as follows:

| | September 30, 2024 | September 30, |
|---|-------------------------------------|--------------------------|
| | \$ | 2023 \$ |
| <hr/> | | |
| Non-cash investing activities: | | |
| Adjustment to right-of-use assets (property and equipment) for lease modification | - | 175,713 |
| Adjustment to lease liability for lease modification | - | (175,713) |
| <hr/> | | |
| Non-cash financing activities: | | |
| Shares issued in settlement of accounts payable | - | 33,900 |
| Shares issued on conversion of convertible note | - | 861,231 |
| <hr/> | | |

During the years ended September 30, 2024 and September 30, 2023, no amounts were paid for interest or income tax expenses.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2024 and September 30, 2023

12. CAPITAL RISK MANAGEMENT

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company can meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility adjusting it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended September 30, 2024. The Company is not subject to externally imposed capital requirements.

13. SEGMENTED INFORMATION

The Company has a single reportable segment being the provision of goods and services to the cannabis industry in Canada. All the Company's revenues are generated in Canada, and its non-current assets are located in Canada.

14. GOVERNMENT ASSISTANCE

National Research Council of Canada's Industrial Research Assistance Program ("NRC-IRAP"):

In October 2022, the Company executed a Contribution Agreement with NRC-IRAP for non-repayable contributions to the Company for the reimbursement of up to 80% of certain salaries paid to employees of the Company for up to \$75,000 through to September 30, 2023 (received during the year ended September 30, 2023). Amounts were recognized as a reduction to salaries and fees, and the agreement is completed.

Canadian Emergency Business Account ("CEBA")

In 2020, the Company qualified for a government-guaranteed line of credit (government loan) of \$40,000 which was interest-free until January 18, 2024. The loan was part of the CEBA benefit in relation to COVID-19 relief. As the loan was repaid by January 18, 2024 (paid, \$30,000), a balance forgiveness of \$10,000 was applied (recognized within other income).

15. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended September 30, 2024 and September 30, 2023, is as follows:

| | September 30, 2024 | September 30, 2023 |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| Income (loss) for the year | (1,435,991) | 223,334 |
| Expected income tax (recovery) expense | (388,000) | 60,000 |
| Change in tax resulting from: | | |
| Permanent differences | 408,000 | 19,000 |
| Change in recognized deductible temporary differences and other | 144,000 | (123,000) |
| Share issue costs | - | (28,000) |
| Adjustment to prior year provision versus statutory tax returns | (164,000) | 72,000 |
| Total income tax (recovery) expense | - | - |

Nextleaf Solutions Ltd.**Notes to the Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2024 and September 30, 2023

15. INCOME TAXES (continued)

The Company's unused temporary differences, and unused tax losses that have not been included on the statements of financial position as at September 30, 2024 and September 30, 2023, are as follows:

| | September 30, | Expiry Date | September 30, | Expiry Date |
|---------------------------------|----------------------|--------------------|----------------------|--------------------|
| | 2024 | Range | 2023 | Range |
| | \$ | | \$ | |
| Equipment | 5,411,000 | No expiry | 4,792,000 | No expiry |
| Share issue costs | 285,000 | 2044 to 2047 | 441,000 | 2044 to 2047 |
| Intangible assets | 554,000 | No expiry | 507,000 | No expiry |
| Available capital losses | 410,000 | No expiry | 410,000 | No expiry |
| Non-capital loss carry forwards | 14,499,000 | 2038 to 2044 | 14,476,000 | 2038 to 2043 |

Tax attributes are subject to review, and potential adjustment, but tax authorities.

16. SUBSEQUENT EVENT

On October 15, 2024, the Company issued 1,666,667 common shares at a fair value of \$125,000 (\$0.075 each) in settlement of accounts payable totalling \$330,101.