



Nextleaf Solutions Ltd.

**Condensed Interim Consolidated Financial Statements
For the three months ended
December 31, 2024**

**Unaudited – Prepared by Management
(Expressed in Canadian Dollars)**

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Nextleaf Solutions Ltd. ("the Company") for the three months ended December 31, 2024, have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of the condensed interim financial statements by an entity's auditor.

Nextleaf Solutions Ltd.**Condensed Interim Consolidated Statements of Financial Position****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)****As at December 31, 2024 and September 30, 2024**

| | Note | December 31, 2024 \$ | September 30, 2024 \$ |
|---|------|----------------------------|-----------------------------|
| Assets | | | |
| Current assets | | | |
| Cash | | 359,857 | 438,536 |
| Receivables and prepayments | 3 | 2,064,538 | 1,951,307 |
| Inventory | 4 | 2,965,808 | 2,995,468 |
| | | 5,390,203 | 5,385,311 |
| Non-current assets | | | |
| Deposits | | 442,601 | 217,050 |
| Property and equipment | 5 | 2,567,991 | 2,732,526 |
| Intangible assets | 6 | 218,419 | 230,190 |
| | | 3,229,011 | 3,179,766 |
| Total assets | | 8,619,214 | 8,565,077 |
| Liabilities and shareholders' equity | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 8 | 3,078,251 | 3,642,730 |
| Customer deposits | | 14,203 | 32,714 |
| Lease liability - current | 5 | 81,367 | 77,882 |
| | | 3,173,821 | 3,753,326 |
| Non-current liabilities | | | |
| Lease liability | 5 | 285,021 | 306,811 |
| Total liabilities | | 3,458,842 | 4,060,137 |
| Shareholders' equity | | | |
| Share capital | 7 | 26,931,424 | 26,806,424 |
| Reserves | 7 | 1,697,277 | 1,740,295 |
| Deficit | | (23,468,329) | (24,041,779) |
| Total shareholders' equity | | 5,160,372 | 4,504,940 |
| Total liabilities and shareholders' equity | | 8,619,214 | 8,565,077 |

Nature of operations and going concern 1

Approved on behalf of the Board of Directors on March 3rd, 2025:"Fred Bonner"

Director

"Sherry Boodram"

Director

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

Nextleaf Solutions Ltd.**Condensed Interim Consolidated Statements of Income and Comprehensive Income**
Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

For the three months ended December 31, 2024 and December 31, 2023

| | Note | December 31, 2024 \$ | December 31, 2023 \$ |
|--|------|----------------------------|----------------------------|
| Revenue | 9 | 3,852,505 | 4,121,693 |
| Excise taxes | | (965,832) | (918,165) |
| Net revenue | | 2,886,673 | 3,203,528 |
| Cost of sales | | 1,649,153 | 2,241,063 |
| Gross profit | | 1,237,520 | 962,465 |
| Expenses | | | |
| Administrative expenses | | 76,531 | 98,864 |
| Amortization | 6 | 11,771 | 11,770 |
| Depreciation | 5 | 6,442 | 6,442 |
| Finance costs | 5 | 12,779 | 15,009 |
| Investor relations and marketing | | 224,742 | 174,046 |
| Professional fees and consulting | 8 | 47,465 | 141,971 |
| Research and operational supplies | | 68,865 | 68,440 |
| Salaries and fees | 8,13 | 463,594 | 312,161 |
| | | (912,189) | (828,703) |
| Loss provision on receivables | 9 | - | (941) |
| Gain on settlement of accounts payable | 7,9 | 205,101 | - |
| | | 205,101 | (941) |
| Income and comprehensive income for the period | | 530,432 | 132,821 |
| Earnings per share | | | |
| Weighted average number of common shares outstanding: | | | |
| Basic # | 7 | 166,062,062 | 159,456,420 |
| Diluted # | 7 | 166,062,062 | 159,456,420 |
| Basic earnings per share | 7 | 0.00 | 0.00 |
| Diluted earnings per share | 7 | 0.00 | 0.00 |

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

Nextleaf Solutions Ltd.**Condensed Interim Consolidated Statements of Cash Flows****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

| | Note | December 31, 2024 \$ | December 31, 2023 \$ |
|---|------|----------------------------|----------------------------|
| Operating activities | | | |
| Income for the period | | 530,432 | 132,821 |
| Adjustments for: | | | |
| Amortization | | 11,771 | 11,770 |
| Depreciation (cost of sales and operating expenses) | 5 | 55,509 | 162,357 |
| Finance costs | | 12,779 | 15,009 |
| Loss provision on receivables | | - | 941 |
| Gain on settlement of accounts payable | | (205,101) | - |
| Non-cash working capital items: | | | |
| Receivables and prepayments | | (113,231) | (896,080) |
| Inventory | | 138,686 | (334,423) |
| Deposits | | (225,551) | - |
| Accounts payable and accrued liabilities | | (234,378) | 455,574 |
| Customer deposits | | (18,511) | - |
| | | (47,595) | (452,031) |
| Investing activities | | | |
| Purchases of property and equipment | 5 | - | (48,766) |
| | | - | (48,766) |
| Financing activities | | | |
| Lease payments | 5 | (31,084) | (30,266) |
| | | (31,084) | (30,266) |
| Change in cash | | (78,679) | (531,063) |
| Cash, beginning of period | | 438,536 | 898,899 |
| Cash, end of period | | 359,857 | 367,836 |

Supplemental cash flow information

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

Nextleaf Solutions Ltd.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

| | Common shares | Share | Reserves | Deficit | Total |
|--|----------------------|-------------------|------------------|---------------------|------------------|
| | # | capital | \$ | \$ | \$ |
| | | \$ | | | |
| September 30, 2023 | 159,456,420 | 26,225,580 | 4,145,740 | (26,237,639) | 4,133,681 |
| Re-allocated on expiry of warrants | - | 89,649 | (89,649) | - | - |
| Income and comprehensive income for the period | - | - | - | 132,821 | 132,821 |
| December 31, 2023 | 159,456,420 | 26,315,229 | 4,056,091 | (26,104,818) | 4,266,502 |
| September 30, 2024 | 164,667,134 | 26,806,424 | 1,740,295 | (24,041,779) | 4,504,940 |
| Re-allocated on expiry of options | - | - | (43,018) | 43,018 | - |
| Shares issued - settlement of accounts payable | 1,666,667 | 125,000 | - | - | 125,000 |
| Income and comprehensive income for the period | - | - | - | 530,432 | 530,432 |
| December 31, 2024 | 166,333,801 | 26,931,424 | 1,697,277 | (23,468,329) | 5,160,372 |

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

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 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 condensed interim consolidated financial statements (the "financial statements") are prepared on the basis 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 December 31, 2024, the Company had working capital of \$2,216,382 (September 30, 2024 – \$1,631,985). 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 conformity with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company's annual audited consolidated financial statements for the year ended September 30, 2024, and do not include all the information required for full annual financial statements in accordance with IFRS Accounting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). It is suggested that these financial statements be read in conjunction with the annual audited consolidated financial statements.

These financial statements have been prepared on a 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 Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 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.

Material accounting policies

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited consolidated financial statements and are those the Company expects to adopt in its consolidated financial statements for the year ended September 30, 2025. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited consolidated financial statements.

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 three months ended December 31, 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 financial statements.

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

3. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments comprise the following:

| | December 31, 2024 | September 30, 2024 |
|-------------------|------------------------------|-----------------------|
| | \$ | \$ |
| Prepaid expenses | 219,091 | 325,966 |
| Trade receivables | 1,845,447 | 1,625,341 |
| | 2,064,538 | 1,951,307 |

4. INVENTORY

Inventory is comprised of the following:

| | December 31, 2024 | September 30, 2024 |
|--|------------------------------|-----------------------|
| | \$ | \$ |
| Production work in progress - distillate | 228,642 | 48,529 |
| Cannabis products | 1,230,276 | 1,275,835 |
| Supplies and hardware | 1,096,402 | 1,362,370 |
| Finished goods - distillate | 410,488 | 308,734 |
| | 2,965,808 | 2,995,468 |

Inventory expensed to cost of sales during the three months ended December 31, 2024, totaled \$1,486,479 (2023 - \$2,063,160).

Nextleaf Solutions Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the three months ended December 31, 2024 and December 31, 2023

5. PROPERTY AND EQUIPMENT

| | Extraction and manufacturing equipment \$ | Leasehold improvements \$ | Right-of-use asset \$ | Furniture and equipment \$ | Total \$ |
|---------------------------------|--|---------------------------------|-----------------------------|----------------------------------|------------------|
| 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 | 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 |
| Cost | | | | | |
| September 30, 2024 | 3,639,119 | 3,125,617 | 555,873 | 221,379 | 7,541,988 |
| Additions | - | - | - | - | - |
| December 31, 2024 | 3,639,119 | 3,125,617 | 555,873 | 221,379 | 7,541,988 |
| Accumulated depreciation | | | | | |
| September 30, 2024 | 2,663,111 | 1,730,640 | 261,076 | 154,635 | 4,809,462 |
| Depreciation ⁽¹⁾ | 48,801 | 92,744 | 19,653 | 3,337 | 164,535 |
| December 31, 2024 | 2,711,912 | 1,823,384 | 280,729 | 157,972 | 4,973,997 |
| Net book value | | | | | |
| September 30, 2024 | 976,008 | 1,394,977 | 294,797 | 66,744 | 2,732,526 |
| December 31, 2024 | 927,207 | 1,302,233 | 275,144 | 63,407 | 2,567,991 |

⁽¹⁾ Depreciation for the three months ended December 31, 2024 and December 31, 2023, is allocated as follows:

| | December 31, 2024 \$ | December 31, 2023 \$ |
|--------------------|----------------------------|----------------------------|
| Cost of sales | 49,067 | 155,915 |
| Inventory | 109,026 | 13,210 |
| Operating expenses | 6,442 | 6,442 |
| | 164,535 | 175,567 |

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 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 in 2023 until June 30, 2028. The renewed lease resulted in a modified lease liability calculated with a discount rate of 13.5%.

A reconciliation of the carrying amount of the lease liability as at December 31, 2024 and September 30, 2024, and changes during the period/year then ended is as follows:

| | December 31, 2024 \$ | September 30, 2024 \$ |
|--|----------------------------|-----------------------------|
| Beginning of period/year | 384,693 | 449,746 |
| Lease payments | (31,084) | (121,882) |
| Lease interest (finance costs) | 12,779 | 56,829 |
| End of period/year | 366,388 | 384,693 |
| Current portion of lease liability | 81,367 | 77,882 |
| Non-current portion of lease liability | 285,021 | 306,811 |
| | 366,388 | 384,693 |
| Maturity analysis - contractual undiscounted cash flows | | |
| Less than one year | 125,972 | 125,154 |
| One to five years | 332,108 | 364,010 |
| | 458,080 | 489,164 |

During the three months ended December 31, 2024, the Company incurred \$10,594 (2023 - \$9,151) 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 December 31, 2024 and September 30, 2024, the Company did not have any low value leases or short-term leases.

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

6. INTANGIBLE ASSETS

A continuity of intangible assets is as follows:

| | Issued patents \$ | Licences \$ | Brand \$ | Total \$ |
|--|----------------------------------|------------------------|---------------------|---------------------|
| <u>Cost</u> | | | | |
| September 30, 2023 | 40,352 | 270,325 | 110,000 | 420,677 |
| September 30, 2024 | 40,352 | 270,325 | 110,000 | 420,677 |
| <u>Accumulated amortization</u> | | | | |
| 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 |
| <u>Cost</u> | | | | |
| September 30, 2024 | 40,352 | 270,325 | 110,000 | 420,677 |
| December 31, 2024 | 40,352 | 270,325 | 110,000 | 420,677 |
| <u>Accumulated amortization</u> | | | | |
| September 30, 2024 | 11,009 | 142,229 | 37,249 | 190,487 |
| Amortization | 504 | 8,517 | 2,750 | 11,771 |
| December 31, 2024 | 11,513 | 150,746 | 39,999 | 202,258 |
| <u>Net book value</u> | | | | |
| September 30, 2024 | 29,343 | 128,096 | 72,751 | 230,190 |
| December 31, 2024 | 28,839 | 119,579 | 70,001 | 218,419 |

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

7. 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 three months ended December 31, 2024:**

- 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. Accordingly, a gain on settlement of payables of \$205,101 was recognized during the three months ended December 31, 2024.

Transactions involving the issuance of share capital during the three months ended December 31, 2023:

- There were no issuances of share capital during the three months ended December 31, 2023.

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 December 31, 2024, 244,444 common shares of the Company (September 30, 2024 – 244,444) have been issued to non-executive employees under the Plan in previous years.

No shares were issued under the Plan during the three months ended December 31, 2024 and December 31, 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 Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

7. SHAREHOLDERS' EQUITY (continued)**Stock options (continued)**

A summary of the status of the Company's stock options as at December 31, 2024 and September 30, 2024, and changes during the period/year then ended is as follows:

| | Period ended December 31, 2024 | | Year ended September 30, 2024 | |
|--|-----------------------------------|--|----------------------------------|--|
| | Options # | Weighted average exercise price \$ | Options # | Weighted average exercise price \$ |
| Options outstanding, beginning of period/year | 11,735,000 | 0.17 | 16,120,000 | 0.35 |
| Granted | - | - | 9,925,000 | 0.14 |
| Expired/Cancelled | (150,000) | 0.50 | (14,310,000) | 0.35 |
| Options outstanding, end of period/year | 11,585,000 | 0.16 | 11,735,000 | 0.17 |

As at December 31, 2024, the Company has stock options outstanding and exercisable as follows:

| Options outstanding # | Options exercisable # | Weighted average exercise price \$ | Expiry date |
|-----------------------------|-----------------------------|--|-------------------|
| 250,000 | 250,000 | 0.25 | December 10, 2025 |
| 390,000 | 390,000 | 0.35 | January 13, 2026 |
| 160,000 | 160,000 | 0.35 | February 15, 2026 |
| 790,000 | 790,000 | 0.28 | August 4, 2026 |
| 70,000 | 70,000 | 0.18 | April 19, 2027 |
| 9,925,000 | 9,925,000 | 0.14 | March 1, 2029 |
| 11,585,000 | 11,585,000 | 0.16 | |

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 |

During the three months ended December 31, 2024, 150,000 stock options expired unexercised. Accordingly, their original fair value of \$43,018 was reversed from reserves and credited to deficit.

During the year ended September 30, 2024, 13,035,000 stock options expired unexercised, and 1,275,000 stock options were cancelled.

There was no share-based payment expense incurred for the three months ended December 31, 2024 and December 31, 2023.

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

7. 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 were fair valued using the Black-Scholes option pricing model.

A summary of the Company's common share purchase warrants as at December 31, 2024 and September 30, 2024, and changes during the period/year then ended is as follows:

| | Period ended December 31, 2024 | | Year ended September 30, 2024 | |
|---|-----------------------------------|--|----------------------------------|--|
| | Warrants # | Weighted average exercise price \$ | Warrants # | Weighted average exercise price \$ |
| Warrants outstanding, beginning of period/year | 6,875,000 | 0.11 | 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 period/year | 6,875,000 | 0.11 | 6,875,000 | 0.11 |

The following table summarizes information about the warrants outstanding and exercisable as at December 31, 2024:

| Warrants # | Weighted average exercise price \$ | Expiry Date | Weighted average remaining life (years) |
|------------------|--|--------------------|---|
| 2,200,000 | 0.08 | September 21, 2027 | 2.72 |
| 1,000,000 | 0.08 | September 21, 2027 | 2.72 |
| 3,675,000 | 0.14 | September 21, 2027 | 2.72 |
| 6,875,000 | 0.11 | | 2.72 |

During the year ended September 30, 2024, certain warrants that were originally issued as compensatory warrants expired unexercised.

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 Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

7. 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, 2023 | 3,971,746 | 173,994 | 4,145,740 |
| Warrants expired | - | (89,649) | (89,649) |
| December 31, 2023 | 3,971,746 | 84,345 | 4,056,091 |
| September 30, 2024 | 1,394,183 | 346,112 | 1,740,295 |
| Options expired | (43,018) | - | (43,018) |
| December 31, 2024 | 1,351,165 | 346,112 | 1,697,277 |

Earnings per share

The calculation of basic and diluted earnings per share for the three months ended December 31, 2024 and December 31, 2023, is based on the following:

| | Three months ended December 31, | |
|---|--|--------------------|
| | 2024 | 2023 |
| Income for the period | \$ 530,432 | \$ 132,821 |
| Weighted average number of common shares outstanding - basic | 166,062,062 | 159,456,420 |
| Dilutive effect of stock options and warrants | - | - |
| Weighted average number of common shares outstanding - diluted | 166,062,062 | 159,456,420 |
| Basic earnings per share \$ | \$ 0.00 | \$ 0.00 |
| Diluted earnings per share \$ | \$ 0.00 | \$ 0.00 |

The calculation of basic earnings per share for the three months ended December 31, 2024 and December 31, 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 three months ended December 31, 2024 and December 31, 2023, none of the stock options or warrants had a dilutive impact.

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

8. 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 three months ended December 31, 2024 and December 31, 2023, is as follows:

| | December 31, 2024 | December 31, 2023 |
|--|------------------------------|----------------------|
| | \$ | \$ |
| Directors' fees (professional fees and consulting) | 12,000 | 9,000 |
| Salaries and fees (paid or accrued) | 68,250 | 79,500 |
| | 80,250 | 88,500 |

Related party balances

As at December 31, 2024 and September 30, 2024, related party balances are as follows:

| | December 31, 2024 | September 30, 2024 |
|----------------------------------|------------------------------|-----------------------|
| | \$ | \$ |
| Prepaid expenses | | |
| Directors' fees | - | 1,000 |
| Professional fees and consulting | - | 6,875 |
| | - | 7,875 |

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

9. 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 |

The Company's financial instruments approximate their fair values. The carrying values of cash, trade receivables, deposits, and accounts payable and accrued liabilities 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 three months ended December 31, 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 85% of the Company's total revenue.

- Customer A: 53% (2023 – 53%)
- Customer B: 19%
- Customer C: 13%

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 Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

9. FINANCIAL INSTRUMENTS (continued)**Economic dependence and revenue from sale of goods (continued)***Revenue from sale of goods and services (continued)*

| Revenue stream | Period ended December 31, 2024 | | | | Period ended December 31, 2023 | | | |
|------------------|-----------------------------------|--------------------------------|------------------|------------------|-----------------------------------|--------------------------------|------------------|------------------|
| | Bulk distillate | Branded extract products | Private label | Total | Bulk distillate | Branded extract products | Private label | Total |
| Wholesale | 140,179 | 3,554,022 | 158,304 | 3,852,505 | 518,805 | 3,158,318 | 444,570 | 4,121,693 |
| British Columbia | 50,000 | 2,031,439 | 5,340 | 2,086,779 | 81,552 | 2,173,920 | 252,265 | 2,507,737 |
| Rest of Canada | 90,179 | 1,522,583 | 152,964 | 1,765,726 | 437,253 | 984,398 | 192,305 | 1,613,956 |
| Total | 140,179 | 3,554,022 | 158,304 | 3,852,505 | 518,805 | 3,158,318 | 444,570 | 4,121,693 |

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 December 31, 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 December 31, 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 December 31, 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 three months ended December 31, 2024, the Company did not recognize any loss provisions. During three months ended December 31, 2023, the Company recognized a loss provision associated with certain debtors of \$941.

During the three months ended December 31, 2024, the Company recorded a gain on settlement of accounts payable totalling \$205,101 (2023 - \$nil) (Note 7) which included the forgiveness of accounts payable relating to the settlement involving the issuance of common shares.

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For the three months ended December 31, 2024 and December 31, 2023

9. FINANCIAL INSTRUMENTS (continued)**Credit risk (continued)**

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.

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 December 31, 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 income and comprehensive income for the period by approximately \$8,000 (2023 - \$12,000).

(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.

Nextleaf Solutions Ltd.**Notes to the Condensed Interim Consolidated Financial Statements****Unaudited – Prepared by Management****(Expressed in Canadian Dollars)**

For the three months ended December 31, 2024 and December 31, 2023

10. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash financing activities during the three months ended December 31, 2024 and December 31, 2023, as follows:

| | December 31, 2024 | December 31, 2023 |
|---|----------------------|----------------------|
| | \$ | \$ |
| Non-cash financing activities: | | |
| Shares issued in settlement of accounts payable | 125,000 | - |

During the three months ended December 31, 2024 and December 31, 2023, no amounts were paid for interest or income tax expenses.

11. 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 three months ended December 31, 2024. The Company is not subject to externally imposed capital requirements.

12. 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.

13. GOVERNMENT ASSISTANCECanadian 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) during the year ended September 30, 2024.