Nextleaf Solutions Ltd.

Financial Statements

September 30, 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Directors of
Nextleaf Solutions Ltd.

We have audited the accompanying financial statements of Nextleaf Solutions Ltd., which comprise the statements of financial position as at September 30, 2018 and 2017 and the statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Nextleaf Solutions Ltd. as at September 30, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Nextleaf Solutions Ltd.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Professional Accountants

March 14, 2019

Nextleaf Solutions Ltd.

Statements of Financial Position
(Expressed in Canadian Dollars)
As at

	Note	September 30, 2018	September 30, 2017
ASSETS			
Current			
Cash		$ 837,604	$ 342,572
Receivables	4	99,276	203,881
Prepaid expenses and advances	5	142,380	81,235
Due from related parties	5,8	102,773	100,000
Subscriptions receivable	7	855,768	74,495
		2,037,801	802,183
Promissory note receivable	14	55,000	-
Equipment deposits	6	65,704	336,996
Equipment	6	2,904,944	869,053
		3,025,648	1,206,049
		$ 5,063,449	$ 2,008,232
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	8	$ 749,833	$ 141,681
Promissory note payable	6	-	2,462
		749,833	144,143
SHAREHOLDERS' EQUITY			
Share capital	7	6,989,747	1,982,637
Warrant reserve	7	37,500	48,320
Subscriptions received in advance	7	-	342,645
Deficit		(2,713,631)	(509,513)
		4,313,616	1,864,089
		$ 5,063,449	$ 2,008,232
Nature and Continuance of Operations	1		
Commitment	17		
Subsequent Events	18		

Approved and Authorized by the Board on March 11, 2019:

"Paul Pedersen" Director

"Charles Ackerman" Director

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

Nextleaf Solutions Ltd.
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)
For the years ended

	Note	September 30, 2018	September 30, 2017
Revenue			
Processing services		$ 396,172	$ 119,760
Equipment sales		127,236	-
		523,408	119,760
Cost of sales	12	(640,631)	(267,001)
		(117,223)	(147,241)
Expenses			
General and administration	11	718,694	34,003
Income from Government grant	15	(8,855)	-
Professional fees and consulting	8	1,150,175	231,022
Sales and marketing		199,881	92,222
Share-based payments	7	27,000	-
		(2,086,895)	(357,247)
Loss and comprehensive loss for the year		$ (2,204,118)	$ (504,488)
Loss and comprehensive loss per share - basic and diluted		$ (0.04)	$ (0.01)
Weighted average number of common shares outstanding		59,244,557	33,656,825

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

Nextleaf Solutions Ltd.

Statements of Cash Flows
(Expressed in Canadian Dollars)
For the years ended

	Note	September 30, 2018	September 30, 2017
Cash flows used in operating activities			
Loss for the year		$ (2,204,118)	$ (504,488)
Items not involving cash:			
Depreciation	11,12	297,056	181,290
Share-based payments		27,000	-
Accrued interest - due from related parties		(5,235)	-
Accrued receivable - income from government grant		(4,243)	-
Changes in non-cash working capital:			
Receivables		108,848	(203,881)
Prepaid expenses and advances		(61,145)	(81,235)
Due from related parties		-	(100,000)
Accounts payable and accrued liabilities		384,136	75,982
		(1,457,701)	(632,332)
Cash flows used in investing activities			
Issuance of promissory note receivable		(55,000)	-
Purchases of equipment		(1,622,909)	(351,122)
Equipment deposits		(9,704)	(336,996)
		(1,687,613)	(688,118)
Cash flows from financing activities			
Subscriptions received		-	342,645
Repayment of promissory note		-	(125,000)
Issuance of common shares, net of share issue costs		3,640,346	1,445,377
		3,640,346	1,663,022
Change in cash		495,032	342,572
Cash, beginning of year		342,572	-
Cash, end of year		$ 837,604	$ 342,572

Supplemental disclosure of significant non-cash investing and financing activities:

Promissory note issued for equipment		$ -	$ 127,462
Common shares issued for equipment		$ -	$ 571,759
Share issue costs included in accounts payable and accrued liabilities		$ -	$ 63,683
Purchases of equipment included in accounts payable and accrued liabilities		$ 429,042	$ -
Finders' units – included in share issue costs		$ 450,000	$ 42,400
Finders' warrants – included in share issue costs		$ 37,500	$ 48,320
Transfer of equipment deposits to equipment		$ 280,996	$ -
Reduction of subscriptions received in advance on issuance of common shares		$ 342,645	$ -
Subscriptions receivable		$ 855,768	$ 74,495
Transfer of warrant reserve on exercise of warrants		$ 45,376	$ -
Transfer of warrant reserve on expiry of warrants		$ 2,944	$ -

During the years ended September 30, 2018 and September 30, 2017, no amounts were paid for interest or income tax expenses.

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

Nextleaf Solutions Ltd.
Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)
For the years ended

	Common Shares	Share Capital	Warrant Reserve	Subscriptions received in advance	Deficit	Total
Balance at September 30, 2016	11,250,000	$ 5,000	$ -	$ -	$ (7,016)	$ (2,016)
Shares returned to treasury	(4,479,170)	(1,991)	-	-	1,991	-
Shares issued for cash	14,635,000	1,588,000	-	-	-	1,588,000
Subscriptions received in advance	-	-	-	342,645	-	342,645
Share issue costs – cash	-	(131,811)	-	-	-	(131,811)
Share issue costs – finders' units	381,600	-	-	-	-	-
Share issue costs – finders' warrants	-	(48,320)	48,320	-	-	-
Shares issued for equipment (Note 6)	25,729,166	571,759	-	-	-	571,759
Loss for the year	-	-	-	-	(504,488)	(504,488)
Balance at September 30, 2017	47,516,596	1,982,637	48,320	342,645	(509,513)	1,864,089
Shares issued for cash – private placement	11,983,396	1,565,329	-	(342,645)	-	1,222,684
Shares issued for cash – warrant exercise	15,143,691	3,360,466	(2,976)	-	-	3,357,490
Shares issued - warrant exercise - debt settlement	1,399,710	247,426	(42,400)	-	-	205,026
Finder's warrants expired	-	2,944	(2,944)	-	-	-
Share issue costs – cash	-	(158,555)	-	-	-	(158,555)
Share issue costs – finders' shares	2,500,000	-	-	-	-	-
Share issue costs – finders' warrants	-	(37,500)	37,500	-	-	-
Share-based payments	150,000	27,000	-	-	-	27,000
Loss for the year	-	-	-	-	(2,204,118)	(2,204,118)
Balance at September 30, 2018	78,693,393	$ 6,989,747	$ 37,500	$ -	$ (2,713,631)	$ 4,313,616

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Nextleaf Solutions Ltd. (the "Company" or "Nextleaf") was incorporated under the laws of the province of British Columbia on October 6, 2015. The Company is an extraction and processing solutions company providing services to the licensed cannabis industry in Canada. The Company's registered and records office is 1090 West Georgia Street, Suite 600, Vancouver, British Columbia, V6E 3V7.

During the year ended September 30, 2018, the Company entered into a binding letter of intent ("LOI") with Legion Metals Corp. ("Legion"), a publicly listed company on the Canadian Securities Exchange, under which, Legion will acquire all of the issued and outstanding common shares of Nextleaf, in a reverse takeover transaction by way of plan of arrangement (the "Transaction"). Subsequent to September 30, 2018, the Company and Legion entered into a binding Acquisition and Arrangement Agreement. Refer to Note 17 for details.

During the year ended September 30, 2018, the Company completed a forward stock split of its issued and outstanding common shares on a 2.25-old-for-1-new basis ("2:25:1"). As a result, all common shares, stock options, warrants, and per share amounts in these financial statements have been retroactively restated to reflect the effect of the forward stock split (Note 7).

These financial statements have been 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.

The Company has been incurring losses and generating negative cash flows since inception. The Company's revenues have not yet risen to levels materially capable of covering its ongoing capital and operating costs. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will generate sufficient revenue and positive cash flows from operations. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

2. BASIS OF PRESENTATION

These financial statements have been prepared on the historical cost basis, except for financial instruments which are classified as fair value through profit or loss. 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.

Statement of compliance

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

Accounting standards issued but not yet effective

A number of new IFRS standards, amendments to standards and interpretations are not yet effective for the year ended September 30, 2018, and have not been applied in preparing these financial statements.

- IFRS 9: A New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of this standard to have a significant impact on its financial statements. The impact is expected to be limited to disclosures only.

- IFRS 15: A New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018. The Company has determined that the adoption of this standard will not have a significant impact on its financial statements as the Company does not have contracts with customers that include multiple deliverables.

- IFRS 16: A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lease accounting model, effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of this standard on its building facility lease.

- IFRIC 23: Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. The Company has not yet determined the extent of the impact of adoption of the Interpretation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant 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 finders' warrants

Determining the fair value of compensatory warrants (finders' warrants) 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.

Equipment

The estimated useful lives of equipment are reviewed by management and adjusted if necessary. To estimate equipment's useful life, management must use its past experience with the same or similar assets, review engineering estimates and industry practices for similar pieces of equipment and/or apply statistical methods to assist in its determination of useful life. Additionally, management makes estimates with respect to the fair value of equipment acquired for non-monetary consideration. The Company assesses fair value by comparing market prices for similar types of equipment.

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.

Determination of market value of Nextleaf common shares

Management is required to estimate the fair market value of the Company's shares when using its shares to procure assets or financing. Management has estimated the shares' value by comparing other public companies of a similar size and nature as Nextleaf's and applying some of their metrics to Nextleaf's current situation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or not 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.

Equipment

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. A full year of depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal.

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

Extraction equipment	20% declining balance
Furniture and equipment	20% declining balance
Mobile trailer	20% declining balance
Leasehold improvements	5 years, based on remaining lease term on commencement of operations

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized when control over a product or service has been transferred to a customer, it is probable that future economic benefits will flow to the Company, and the amount of revenue can be reliably measured. Revenue is recorded based on the fair value of consideration received or receivable. Revenue is not recognized before there is persuasive evidence that an arrangement exists, such as: delivery has occurred or the service has been performed and completed, the revenue amount is fixed and determinable, and the collection of outstanding amounts is considered probable. Revenue is presented net of sales taxes and discounts. The Company records revenue from the following categories:

<u>Processing services:</u>

The Company recognizes revenue from processing services relating to the rental of equipment to third parties, and/or from the provision of extraction and processing services when the service has been performed and completed. This is the point in time in which the Company has satisfied its performance obligations and transferred control of the service promised to a customer.

<u>Equipment sales:</u>

The Company recognizes revenue from the sale of equipment when delivery of the equipment has taken place thereby transferring the significant risks and rewards of ownership to the buyer, and when the Company retains neither continuing managerial involvement to the degree usually associated with ownership or control over the equipment sold. This is the point in time in which the Company has satisfied its performance obligations and transferred control of the asset to a customer.

Government grants

Government grants are recognized when there is reasonable assurance that, (a) the Company will comply with any conditions attached to the grant; and (b) the grant will be received. Government grants that reimburse for expenses already incurred are recognized in profit or loss on a systematic basis in the same period in which the expenses are incurred and are presented separately from the expense as income from Government grant. Amounts accrued and not yet received are included within receivables. Refer to Note 15 for details of the Company's Government grants.

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. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

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 as warrant reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

The Company may issue compensatory warrants (finders' warrants) in connection with the completion of equity financings. The fair value of compensatory warrants is measured on grant date and is recognized as a reduction to share capital as a share issue cost with a corresponding increase in warrant reserve.

Compensatory warrants 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 compensatory warrants issued is recorded on the issuance date which is the date the goods or services are received.

When compensatory warrants are exercised, the consideration received is recorded as share capital and the initial recorded value originally recorded as warrant reserve is transferred to share capital. When a compensatory warrant expires, the initial recorded value is reversed from warrant reserve and credited to share capital.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific identification method for new equipment. Net realizable value approximates the estimated selling price less all estimated costs of completion and necessary costs to complete the sale. Previous write-downs of inventory, are reversed when economic changes support an increased value. Where a previous write-down is reversed, the reversal is limited to the amount of the original write-down, so that the new carrying amount is the lower of cost and the revised net realizable value.

Loss per share

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

Diluted loss per share is computed similar to basic loss per share except that (i) net 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. For the periods presented, diluted loss per share equals basic loss per shares as the effect of all dilutive stock options and warrants would have been anti-dilutive.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Company classifies its financial instruments assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss ("FVTPL")

This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss.

Held to maturity

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Available-for-sale ("AFS")

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from shareholders' equity and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities

This category consists of liabilities carried at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has classified its cash as fair value through profit or loss. Receivables, due from related parties, subscriptions receivable, and promissory note receivable, are classified as loans and receivables. The Company’s accounts payable and accrued liabilities, and promissory note are classified as other financial liabilities.

Related party transactions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

(Expressed in Canadian Dollars)

4. RECEIVABLES

The Company's receivables comprise the following:

	September 30, 2018 **$**	September 30, 2017 $
Trade receivables	8,095	185,967
Sales tax recoverable	86,938	17,914
Accrued Government grant receivable (Note 15)	4,243	-
	99,276	203,881

5. PREPAID EXPENSES AND ADVANCES

The Company's prepaid expenses and advances comprise the following:

	September 30, 2018 **$**	September 30, 2017 $
Conference fees	9,000	30,000
Retainers	51,254	35,516
Expense advances and other	82,126	15,719
	142,380	81,235

(Expressed in Canadian Dollars)

6. EQUIPMENT

	Extraction Equipment $	Furniture and Equipment $	Mobile Trailer $	Leasehold Improvements $	Total $
Cost					
September 30, 2016	-	-	-	-	-
Additions	1,050,343	-	-	-	1,050,343
September 30, 2017	1,050,343	-	-	-	1,050,343
Accumulated depreciation					
September 30, 2016	-	-	-	-	-
Depreciation**	181,290	-	-	-	181,290
September 30, 2017	181,290	-	-	-	181,290
Cost					
September 30, 2017	1,050,343	-	-	-	1,050,343
Additions	1,466,919	182,617	257,173	426,238	2,332,947
September 30, 2018	**2,517,262**	**182,617**	**257,173**	**426,238**	**3,383,290**
Accumulated depreciation					
September 30, 2017	181,290	-	-	-	181,290
Depreciation**	239,029	10,667	47,360	-	297,056
September 30, 2018	**420,319**	**10,667**	**47,360**	-	**478,346**
Net book value					
September 30, 2017	869,053	-	-	-	869,053
September 30, 2018	**2,096,943**	**171,950**	**209,813**	**426,238**	**2,904,944**

** Deprecation is allocated as follows:

- $286,389 included within cost of sales for the year ended September 30, 2018 (2017 - $181,290) (Note 12); and
- $10,667 included within general and administration expense for the year ended September 30, 2018 (2017 - $Nil) (Note 11).

Certain of the Company's equipment was not yet in use as at September 30, 2018. Depreciation is taken when items are in the location and condition necessary for it to be capable of operating in a manner intended by management. The leasehold improvements were not in use as at September 30, 2018, therefore no depreciation was taken during the year then ended.

On January 10, 2017, the Company acquired cannabis extraction equipment from a third party individual (the "Seller") with a fair value of $699,221, which was paid by the Company as follows: (i) a $127,462 unsecured promissory note bearing interest at 2.5% per annum; and (ii) 25,729,166 common shares of the Company (Note 7). The acquisition of this equipment was included within extraction equipment additions during the year ended September 30, 2017 (the "Transaction"). As at September 30, 2018, $2,462 remains owed to the Seller and is offset against separate amounts owed to the Company by the Seller within due from related parties, (2017 - $2,462 was outstanding as promissory note payable). On September 27, 2018, the Seller became the Chief Technical Officer of the Company.

As at September 30, 2018, the Company had paid cash deposits for additional cannabis extraction equipment in the amount of $65,704 (2017- $336,996 (equipment was received during the year ended September 30, 2018).

7. SHAREHOLDERS' EQUITY

Authorized

Unlimited number of common shares with no par value.

Issued and Outstanding

As at September 30, 2018, the total issued and outstanding share capital consists of 78,693,393 (2017 – 47,516,596) common shares.

During the year ended September 30, 2018, the Company completed a forward stock split of its issued and outstanding common shares on a 2.25-old-for-1-new basis ("2:25:1"). As a result, all common shares, warrants, and per share amounts in these financial statements have been retroactively restated to reflect the effect of the forward stock split (Note 1).

Share issuances during the year ended September 30, 2018:

- On October 31, 2017, the Company closed a private placement for the issuance of 3,708,252 units at a price of $0.1111 per unit for gross proceeds of $412,028. Each unit comprised of one common share and one common share purchase warrant exercisable at a price of $0.2222 per common share until July 20, 2018. Related to this issuance, $342,645 of subscriptions received in advance as at September 30, 2017, were reclassified to share capital.

- On January 31, 2018, the Company closed a private placement for the issuance of 4,500,000 shares at a price of $0.1083 per share for gross proceeds of $487,566. The Company also paid cash finders' fees of $34,130.

- On January 31, 2018, the Company closed a private placement for the issuance of 3,775,144 shares at a price of $0.1764 per share for gross proceeds of $665,735. The Company also paid cash finders' fees of $46,602.

- On February 22, 2018, 150,000 shares were issued with a fair value of $27,000 for services provided by a consultant and are recorded as share-based payment expense.

- On March 1, 2018, 954,000 shares were issued at a price of $0.1111 upon the exercise of finders' warrants. No proceeds were received as the exercise price was applied against the balance owed by the Company to the warrant holder.

- On March 1, 2018, 2,500,000 shares were issued at a value of $450,000 for services provided related to share issuances within share issue costs, having a net $Nil effect on share capital. Additionally, 750,000 finders' warrants exercisable at $0.25 per share until March 1, 2019, were issued on this date to the service provider in relation to the equity financings that occurred during the year ended September 30, 2018. The finders' warrants were recorded at a fair value of $37,500 as a share issue cost and within warrant reserve.

- On June 18, 2018, 66,960 shares were issued at a price of $0.1111 per share upon the exercise of finders' warrants for gross proceeds of $7,440.

7. SHAREHOLDERS' EQUITY (continued)

- On August 17, 2018, 7,417,798 shares were issued at a price of $0.2222 upon the exercise of finders' warrants for gross proceeds of $1,648,235. Fees related to the share issue totaled $77,823.

- On September 28, 2018, upon the exercise of 7,658,933 share purchase warrants, 7,658,933 shares were issued at a price of $0.2222 per share for gross proceeds of $1,701,815.

- On September 28, 2018, upon the exercise of 445,710 share purchase warrants, 445,710 shares were issued at a price of $0.2222 per share. No proceeds were received as the exercise price was applied against the balance owed by the Company to the warrant holders.

  In connection with the share issuances during August and September 2018, $855,768 of the gross proceeds were included within subscriptions receivable as at September 30, 2018. The amounts were collected in full subsequent to September 30, 2018.

Share issuances during the year ended September 30, 2017:

- On January 10, 2017, the Company issued 25,729,166 common shares of the Company with a fair value of $571,759 for the purchase of equipment (Note 6). This transaction was valued in reference to the estimated fair value of the equipment acquired.

- On June 2, 2017, the Company issued 837,000 units at a price $0.1111 per unit for gross proceeds of $93,000. Each unit comprised of one common share, and one common share purchase warrant exercisable at a price of $0.2222 per share until June 2, 2018. The Company also issued 66,960 finders' warrants in connection with this financing, recorded at a fair value of $2,976, and paid cash finders' fees of $5,580. The finders' warrants expire on June 2, 2018, and are exercisable at a price of $0.1111 per share.

- On July 10, 2017, the Company issued 713,250 units at a price $0.1111 per unit for gross proceeds of $79,250. Each unit comprised of one common share, and one common share purchase warrant, exercisable at a price of $0.2222 per share until July 10, 2018. The Company also issued 57,060 finders' warrants in connection with this financing, recorded at a fair value of $2,536, and paid cash finders' fees of $4,755. The finders' warrants expire on July 10, 2018, and are exercisable at a price of $0.1111 per share. $74,495 related to this unit issuance was received during the year ended September 30, 2018.

- On July 20, 2017, the Company issued 9,540,000 units at a price $0.1111 per unit for gross proceeds of $1,060,000. Each unit comprised one common share and one common share purchase warrant, exercisable at a price of $0.2222 per share until July 20, 2018. The Company also issued 954,000 finders' warrants in connection with this financing, recorded at a fair value of $42,400. Further, the Company paid cash finders' fees of $42,400, and issued an additional 381,600 units to finders' (in lieu of a cash commission), recorded at a fair value of $42,400 within share issue costs, having a net $nil effect on share capital. The finders' warrants expire on July 20, 2018, and are exercisable at a price of $0.1111 per share.

(Expressed in Canadian Dollars)

7. SHAREHOLDERS' EQUITY (continued)

- On July 31, 2017, the Company issued 114,750 units at a price $0.1111 per unit for gross proceeds of $12,750. Each unit comprised of one common share and one common share purchase warrant, exercisable at a price of $0.2222 per share until July 31, 2018. The Company also issued 9,180 finders' warrants in connection with this financing, recorded at a fair value of $408, and paid cash finders' fees of $765. The finders' warrants expire on July 31, 2018, and are exercisable at a price of $0.1111 per share.

- On August 14, 2017, the Company issued 3,429,999 units at a price $0.10 per unit for gross proceeds of $343,000. Each unit comprised of one common share and one common share purchase warrant, exercisable at a price of $0.2222 per share until August 14, 2018. As at September 30, 2017, $74,495 of the gross proceeds were included within subscriptions receivable. The amount was collected in full during the year ended September 30, 2018.

Aggregate cash share issue costs pursuant to the financings completed during the year ended September 30, 2017, totaled $131,811, of which $53,500 were cash commissions to finders' (as disclosed above), and $78,311 were professional and other fees related to the financings.

Warrants

	Number of warrants outstanding		Weighted average exercise price
Balance, September 30, 2016	-	$	-
Issued – attached to units	15,016,599		0.22
Issued – finders' warrants	1,087,200		0.11
Balance, September 30, 2017	16,103,799	$	0.21
Issued – attached to units	3,708,252		0.22
Issued – finders' warrants	750,000		0.25
Exercised	(16,543,401)		0.22
Expired	(3,268,650)		0.22
Balance, September 30, 2018	750,000	$	0.25

Number of warrants outstanding		Weighted average exercise price	Expiry Dates	Weighted average remaining life (years)
750,000	$	0.25	March 1, 2019	0.42

(Expressed in Canadian Dollars)

7. SHAREHOLDERS' EQUITY (continued)

Warrants (continued)

The fair value of the finders' warrants issued during the year ended September 30, 2018, was $37,500 (2017 - $48,320), and is recorded as a share issue cost. The fair value of the finders' warrants was estimated at the issuance date based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	2018	2017
Risk-free interest rate	2.00%	2.30%
Expected dividend yield	0%	0%
Expected life	1 year	1 year
Expected volatility	100%	100%
Fair value per finders' warrant issued	$0.05	$0.04

8. RELATED PARTY TRANSACTIONS

Key management personnel

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.

The remuneration of key management for the years ended September 30, 2018, and 2017 are as follows:

	2018 $	2017 $
Consulting fees	330,264	40,000

Transactions with other related parties

The Company entered into transactions with other related parties during the years ended September 30, 2018, and 2017 as follows:

	2018 $	2017 $
Legal fees (professional fees) – former director	56,565	17,305

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS (continued)

Amounts due from (to) related parties

The following amounts are due from (to) related parties as at September 30, 2018 and 2017:

	2018 $	2017 $
Officer and director of the Company – accounts payable and accrued liabilities	(138,286)	(35,668)
Due from related parties [1]	102,773	100,000
Promissory note receivable (payable) [1]	-	(2,462)
Prepaid expenses to related parties	50,477	14,143

[1] During the year ended September 30, 2017, $75,000 was loaned to a former director of the Company. The loan is repayable on demand and bears interest at a rate of 6% per annum. An additional $25,000 was loaned to the Chief Technical Officer as an unsecured promissory note which bears interest at rate of 3% per annum. The loan is repayable on demand and bears interest at a rate of 3% per annum. Aggregate interest income of $5,235 (2017 - $nil) was recorded within general and administration during the year.

9. FINANCIAL INSTRUMENTS

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;
- Level 3 - Inputs that are not based on observable market data.

Fair value risk

The Company's financial instruments consist of cash, receivables, promissory note receivable, due from related parties, subscriptions receivable, accounts payable and accrued liabilities, and promissory note payable.

The Company's financial instruments with the exception of cash approximate their fair values. Cash, under the fair value hierarchy is based on Level 1 quoted prices in active markets for identical assets or liabilities.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk is considered insignificant. The Company's exposure to its trade receivables equates to their carrying value. The Company's sales tax recoverable represents refunds due from the Government of Canada and the exposure to credit risk on this amount is considered to be limited.

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. As at September 30, 2018, the Company had working capital of $1,287,968, and requires additional financing to meet its business objectives.

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 occasionally incurs equipment purchases denominated in the United States dollar, and has historically raised equity financing in Australian Dollars. As at September 30, 2018, 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 by approximately $28,000.

9. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

(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, except for cash held in interest-bearing accounts which poses an insignificant risk exposure.

(iii) Price risk

Equity price risk is defined as the potential adverse impact on the Company's results of operations due to movements in individual equity prices or general movements in the level of the stock market. The Company currently operates as a private company which limits its exposure to price risk, however, the Company has completed several private placement financings, and therefore it is exposed to price risk with respect to equity prices set on its offerings which may impact the level of funds raised and number of common shares issued in those financings. The Company's risk level with respect to price risk will increase when the Company becomes publicly traded.

10. 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 is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to 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, 2018. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

11. GENERAL AND ADMINISTRATION

General and administration for the years ending September 30, 2018 and 2017 comprise the following:

	2018 $	2017 $
Bank charges	11,275	534
Depreciation (Note 6)	10,667	-
Foreign exchange	10,490	3,771
Insurance	23,774	13,085
Interest income	(5,235)	-
Office	102,764	10,660
Rent	52,409	5,953
Repairs and maintenance	72,172	-
Research	26,080	-
Wages and salaries	414,298	-
	718,694	34,003

12. COST OF SALES

Cost of sales for the years ending September 30, 2018 and September 30, 2017 comprise the following:

	2018 $	2017 $
Contractors	22,786	28,000
Depreciation (Note 6)	286,389	181,290
Hardware	99,762	-
Supplies and utilities	112,194	57,711
New equipment (inventory)	119,500	-
	640,631	267,001

13. SEGMENTED INFORMATION

The Company has a single reportable segment: the provision of extraction and processing solutions and equipment to the cannabis industry in Canada. All of the Company's revenues are generated in Canada, and its non-current assets are located in Canada.

For the year ended September 30, 2018, there were three customers that each accounted for greater than 10% of total revenue individually, with the aggregate revenues from these customers amounted to $523,408 (2017 – five customers, with aggregate revenues of $119,760).

14. PROMISSORY NOTE RECEIVABLE

The Company has provided a promissory note to a equipment supplier which is callable on demand and bears annual interest at 3%. As at September 30, 2018, the total amount receivable by the Company was $55,000.

15. GOVERNMENT GRANT

National Research Council Canada – Industrial Research Assistance Program ("NRC")

The Company entered into an agreement with the NRC to receive a grant for a project pertaining to the removal of chlorophyll and like impurities from crude oil extracts. The grant will reimburse the Company for 80% of supported salary costs to a maximum of $80,000 for the calendar 2018/2019 period and $22,000 for the calendar 2019/2020 period.

The project started during the year ended September 30, 2018, and the Company incurred $8,855 of reimbursable expenditures (2017 - $nil), which has been recorded as income from Government grant. As at September 30, 2018, $4,243 is included in receivables (Note 4).

(Expressed in Canadian Dollars)

16. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended September 30, 2018, and September 30, 2017, is as follows:

	2018 $	2017 $
Loss for the year	(2,204,118)	(504,488)
Expected income tax (recovery)	(595,000)	(131,000)
Change in tax resulting from:		
Permanent differences	7,000	2,000
Change in recognized deductible temporary differences and other	631,000	129,000
Share issue cost	(43,000)	-
Total income tax expense (recovery)	-	-

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

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, 2018, and September 30, 2017, are as follows:

	2018 $	Expiry Date Range	2017 $	Expiry Date Range
Equipment	817,000	N/A	586,000	N/A
Share issue costs	206,000	2021 to 2022	79,000	2021
Non-capital loss carry forwards	2,276,000	2036 to 2038	338,000	2036 to 2037

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

17. COMMITMENT

The Company has entered into a warehouse lease agreement for the lease of its centralized processing facility which is currently under renovation (leasehold improvements). The lease is for the period from July 1, 2018 to June 30, 2023. Minimum annual commitments are as follows:

Year	Total commitment
2019	$ 63,804
2020	63,804
2021	65,113
2022	68,712
2023	52,424
	$ 313,857

18. SUBSEQUENT EVENTS

a) On November 29, 2018, the Company and Legion entered into a binding and definitive Acquisition and Arrangement Agreement (the "Definitive Agreement") respecting the Transaction (Note 1). As a condition to closing the Transaction, Nextleaf will complete a private placement equity financing (the "Private Placement") for gross proceeds of a minimum of $3,000,000, and maximum of $7,000,000 (subject to an Over-Allotment Option).

   On closing of the Transaction, it is anticipated that Nextleaf shareholders will hold between 95.5% and 97% of the shares of the resulting issuer (the "Resulting Issuer"), with the remaining shares of the resulting issuer being held by Legion shareholders. Additionally, the outstanding options and warrants to purchase common shares of Legion and Nextleaf will represent options and warrants to purchase common shares of the Resulting Issuer, with the number of common shares issuable upon exercise, and the exercise price, adjusted to reflect the terms of the Transaction. Furthermore, it is anticipated that Legion will change its name to "Nextleaf Solutions Ltd." and will carry on with Nextleaf's cannabis extraction technology business.

   Closing of the Transaction remains subject to regulatory and exchange review and approval.

b) On February, 15, 2019, the Company completed a brokered private placement equity financing of 2,654,014 units at a price of $0.35 per unit for gross proceeds of $928,905. Each unit consists of one common share and one common share purchase warrant of the Company exercisable at $0.70 per share until February, 15, 2021.