Nextleaf Solutions Ltd.

(formerly Legion Metals Corp.)
Condensed Interim Consolidated Financial Statements
For the nine months ended
June 30, 2019

Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Nextleaf Solutions Ltd. ("the Company") for the nine months ended June 30, 2019 and June 30, 2018, 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. (formerly Legion Metals Corp.)
Condensed Interim Consolidated Statements of Financial Position
Unaudited – Prepared by Management
As at

	Note	June 30, 2019 $	September 30, 2018 $
Assets			
Current assets			
Cash		5,490,327	837,604
Receivables	4	190,478	99,276
Subscriptions receivable	8	423,786	855,768
Due from related parties	9	-	102,773
Prepaid expenses and advances	5,9	221,759	142,380
		6,326,350	2,037,801
Non-current assets			
Promissory note receivable	15	528,520	55,000
Deposits	9,12	81,155	-
Equipment deposits	6	159,704	65,704
Equipment	6	3,861,476	2,904,944
Intangible asset	7	200,000	-
		4,830,855	3,025,648
Total assets		**11,157,205**	5,063,449
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	908,227	749,833
Total liabilities		**908,227**	749,833
Shareholders' equity			
Share capital	8	17,080,494	6,989,747
Reserves	8	2,577,100	37,500
Deficit		(9,408,616)	(2,713,631)
Total shareholders' equity		**10,248,978**	4,313,616
Total liabilities and shareholders' equity		**11,157,205**	5,063,449

Nature of operations and going concern	1
Commitment	17
Subsequent event	18

Approved on behalf of the Board of Directors on August 28, 2019:

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

"Paul Pedersen" **Director** *"Charles Ackerman"* **Director**

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

Nextleaf Solutions Ltd. (formerly Legion Metals Corp.)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Unaudited – Prepared by Management
For the three and nine months ended

		Three months ended		Nine months ended	
	Note	**June 30, 2019 $**	June 30, 2018 $	**June 30, 2019 $**	June 30, 2018 $
Revenue	10	-	90,172	-	341,408
Cost of sales		-	123,936	-	462,261
		-	(33,764)	-	(120,853)
Expenses					
Administrative expenses	10	159,939	62,176	442,961	152,485
Depreciation	6	184,342	1,617	374,602	1,617
Foreign exchange loss (gain)		(88,899)	(3,938)	42,412	(3,264)
Investor relations and advertising		126,738	81,770	376,974	125,723
Professional fees and consulting	9	602,159	136,393	1,433,112	664,627
Share-based payments	8,9	406,003	-	2,339,103	27,000
Wages and salaries		146,934	116,642	400,000	277,702
Loss from operating expenses		**(1,537,216)**	(394,660)	**(5,409,164)**	(1,245,890)
Income from Government grant	16	43,495	-	74,481	-
Interest income		4,263	-	9,765	-
Listing expense	3	-	-	(1,370,067)	-
		47,758	-	(1,285,821)	-
Loss and comprehensive loss for the period		**(1,489,458)**	(428,424)	**(6,694,985)**	(1,366,743)

Basic and diluted loss per common share	**(0.04)**	(0.01)	**(0.18)**	(0.02)
Weighted average number of common shares outstanding - basic and diluted	**39,680,376**	63,112,176	**36,562,563**	56,931,860

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

Nextleaf Solutions Ltd. (formerly Legion Metals Corp.)
Condensed Interim Consolidated Statements of Cash Flows
Unaudited – Prepared by Management
For the nine months ended

	Note	**June 30, 2019 $**	June 30, 2018 $
Operating activities			
Loss and comprehensive loss for the period		(6,694,985)	(1,366,743)
Adjustments for:			
Depreciation	6	374,602	211,404
Share-based payments		2,339,103	27,000
Listing expense - non-cash portion		1,180,399	-
Accrued interest - promissory note receivable		(8,495)	(1,476)
Non-cash working capital items:			
Receivables		(84,391)	137,673
Due from related parties		27,773	-
Inventory		-	(26,080)
Prepaid expenses and advances		(85,534)	(68,384)
Accounts payable and accrued liabilities		25,925	436,467
		(2,925,603)	(650,139)
Investing activities			
Issuance of promissory note receivable		(465,025)	-
Cash acquired on reverse acquisition	3	100,250	-
Purchases of equipment		(1,198,665)	(1,688,253)
Refund of equipment deposit		56,000	82,311
Payment of equipment deposits		(150,000)	-
		(1,657,440)	(1,605,942)
Financing activities			
Issuance of common shares, net of share issue costs		8,379,998	1,598,026
Repayment of promissory note		-	(2,462)
Subscriptions received in advance		-	967,071
Collection of subscriptions receivable		855,768	74,495
		9,235,766	2,637,130
Change in cash		**4,652,723**	381,049
Cash, beginning of period		**837,604**	342,572
Cash, end of period		**5,490,327**	723,621
Supplemental cash flow information	12		

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

Nextleaf Solutions Ltd. (formerly Legion Metals Corp.)
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
Unaudited – Prepared by Management
For the nine months ended

	Common shares #	Share capital $	Reserves $	Subscriptions received in advance $	Deficit $	Total $
September 30, 2017	2,202,147	1,982,637	48,320	342,645	(509,513)	1,864,089
Private placement shares issued	11,983,396	1,565,328	-	(342,645)	-	1,222,683
Warrant exercise - debt settlement	1,020,960	158,805	(45,376)	-	-	113,429
Subscriptions received in advance	-	-	-	1,309,716	-	1,309,716
Share issue costs - cash	-	(80,731)	-	-	-	(80,731)
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 and comprehensive loss	-	-	-	-	(1,366,743)	(1,366,743)
June 30, 2018	17,856,503	3,615,539	40,444	1,309,716	(1,876,256)	3,089,443
September 30, 2018	33,378,944	6,989,747	37,500	-	(2,713,631)	4,313,616
Private placement units issued - pre-RTO	14,285,714	5,000,000	-	-	-	5,000,000
Reverse acquisition transaction (Note 3):						
Equity of Legion Metals Corp.	3,647,022	698,045	60,901	-	(651,885)	107,061
Elimination of equity of Legion Metals Corp.	-	(698,045)	(60,901)	-	651,885	(107,061)
Shares acquired of legal parent	(33,378,944)	-	-	-	-	-
Issuance of shares pursuant to reverse acquisition	78,693,393	1,276,460	-	-	-	1,276,460
Replacement warrants issued	-	-	11,000	-	-	11,000
Private placement units issued - post-RTO	10,400,000	4,160,000	-	-	-	4,160,000
Share issue costs - cash	-	(462,799)	-	-	-	(462,799)
Share issue costs - warrants	-	(239,681)	239,681	-	-	-
Exercise of warrants	43,808	15,333	-	-	-	15,333
Re-allocated on exercise of warrants	-	4,254	(4,254)	-	-	-
Exercise of options	260,713	91,250	-	-	-	91,250
Re-allocated on exercise of options	-	45,930	(45,930)	-	-	-
Shares issued - acquisition of intangible asset	444,444	200,000	-	-	-	200,000
Share-based payments	-	-	2,339,103	-	-	2,339,103
Loss and comprehensive loss	-	-	-	-	(6,694,985)	(6,694,985)
June 30, 2019	**107,775,094**	**17,080,494**	**2,577,100**	**-**	**(9,408,616)**	**10,248,978**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Nextleaf Solutions Ltd. (formerly Legion Metals Corp.) ("Legion", the "Company") was incorporated under the laws of the province of British Columbia on December 8, 2016. The Company changed its name to Nextleaf Solutions Ltd., on March 14, 2019. The Company is a cannabis extraction technology company that has developed patented processes for the production of cannabinoid distillate. The Company's business involves acquiring, developing, and deploying large-scale cannabis and hemp extraction technologies and providing turn-key processing solutions to the licensed cannabis industry in Canada. The Company has developed a patent portfolio, which includes a number of granted and pending patents.

The Company's head office is located at #304 – 68 Water Street, Vancouver, British Columbia, V6B 1A4 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."

On March 14, 2019, the Company acquired all of the issued and outstanding common shares of Nextleaf Innovations Ltd., ("Nextleaf") a private British Columbia cannabis extraction technology company incorporated on October 6, 2015, by an Acquisition and Arrangement Agreement by way of Plan of Arrangement (the "Transaction"). The Transaction was accounted for as a reverse acquisition ("RTO") of Legion by Nextleaf for accounting purposes, with Nextleaf being identified as the accounting acquirer, and accordingly, the Company is considered a continuation of Nextleaf. The net assets of Legion at the date of the RTO are deemed to have been acquired by Nextleaf (Note 3). These condensed interim consolidated financial statements (the "financial statements") include the results of operations of Legion from March 14, 2019. The comparative figures are those of Nextleaf prior to the RTO, with the exception of adjusting retroactively the capital (number of common shares) of Nextleaf to reflect the capital of the Legion. On closing of the Transaction, the outstanding stock options and warrants to purchase common shares of Legion and Nextleaf now represent stock options and warrants to purchase common shares of the consolidated Company.

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. 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. The continuance of operations is dependent on the Company continuing to raise financing, obtaining the appropriate licensing to commence commercial operations, and generating revenues and future profitability from commercial operations. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

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 financial statements for the year ended September 30, 2018, and do not include all the information required for full annual financial statements 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"). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

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

Principles of consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiary Nextleaf Innovations Ltd., as follows:

Nextleaf Solutions Ltd. (formerly Legion Metals Corp.)	100%	Parent company
Nextleaf Innovations Ltd. (formerly Nextleaf Solutions Ltd.)	100%	Extraction solutions company

A subsidiary is an entity controlled by the Company and is included in the 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.

The Company has accounted for Legion as a controlled entity requiring consolidation since the date of the RTO (Notes 1 and 3), effective March 14, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

Except as set out below, 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 financial statements and are those the Company expects to adopt in its financial statements for the year ended September 30, 2019. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

New accounting policies

IFRS 9 – *Financial Instruments*

The Company has adopted new accounting standard IFRS 9 – *Financial Instruments*, effective for annual periods beginning on or after January 1, 2018. The adoption of IFRS 9 did not result in any changes to the classification, measurement or carrying amounts of the Company's existing financial instruments on the transition date of October 1, 2018.

The new standard brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 – *Financial instruments: recognition and measurement*. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value.

The details of the new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

<u>Classification and measurement of financial assets and liabilities</u>

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held-to-maturity, loans and receivables, and available-for-sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The classifications of financial liabilities remain the same under IFRS 9, as they were under IAS 39. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

A financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The classifications of the Company's financial instruments given effect to the adoption of IFRS 9 are included in the significant accounting policy below, "Financial Instruments."

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

An 'expected credit loss' ("ECL") model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model are shown in the table below. The adoption of the ECL impairment model had no impact on the carrying amounts of the Company's financial assets on the transition date given the receivables are substantially all current, due from related parties are due from credit worthy individuals, subscriptions receivable are collectible in full, and promissory note receivable is due from a credit-worthy company with the note remaining in good standing. Additionally, there is no history of customer default on receivables.

Financial instruments

All financial instruments are recognized initially at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

Classification and measurement

The Company classifies its financial instruments in the following categories based on the purpose for which the asset was acquired: FVTPL, amortized cost, FVOCI, and other financial liabilities. The impact of the adoption of IFRS 9 did not change the measurement approach of any of the financial instruments below. The Company's financial assets and financial liabilities are classified and measured as follows:

	Measurement Category		
Asset/Liability	**Original (IAS 39)**	**New (IFRS 9)**	**Subsequent measurement**
Cash	FVTPL	FVTPL	Fair value
Receivables	Loans and receivables	Amortized cost	Amortized cost
Subscriptions receivable	Loans and receivables	Amortized cost	Amortized cost
Due from related parties	Loans and receivables	Amortized cost	Amortized cost
Promissory note receivable	Loans and receivables	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Other financial liabilities	Amortized cost

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 – *Revenues from contracts with customers*

IFRS 15 was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. IFRS 15 replaces IAS 18 *Revenue,* IAS 11 *Construction Contracts* and related interpretation. The new standard establishes a single, principles-based five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements.

Changes in accounting policies resulting from the adoption of IFRS 15 had no impact on the Company's financial statements or the reported amounts of revenues.

Revenue recognition

The Company's revenue is comprised of equipment sales and the provision of processing services. Revenue is recognized when control of the goods or service has transferred to the purchaser and collectability is reasonably assured. This is generally when goods have been delivered, or the services completed, which is also when the performance obligations have been fulfilled under the terms of the related sales contract. Revenues are recorded net of discounts and incentives but inclusive of freight in the sale of goods.

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, 2019, and have not been applied in preparing these financial statements. Many of these updates are not applicable or consequential to the Company and have been excluded from the discussion below.

- IFRS 16: *Leases.* 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 has not yet completing the scoping and review of its lease of its centralized processing facility (Note 17). However, the Company initially anticipates the adoption of IFRS 16 to have a material impact on the statements of financial position primarily due to the capitalization and recognition and measurement of the right-of-use asset and lease liability associated with its centralized processing facility and initially intends to apply the transition to IFRS 16 under the modified retrospective approach. The impact on profit or loss will be a reduction of rent expense for the centralized processing facility, and instead will be replaced by an amortization of the right-of-use asset and interest (finance) costs on the lease liability. The lease contract is denominated in Canadian dollars, therefore there will be no volatility in foreign exchange amounts recognized in profit or loss.

- 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 initially anticipated that there will be no significant impact on adoption of the Interpretation.

3. REVERSE ACQUISITION

As described in Note 1, on March 14, 2019, the Company and Nextleaf completed a Transaction which constituted a reverse acquisition.

The Transaction resulted in the shareholders of Nextleaf obtaining control of the combined entity by obtaining control of the voting rights, governance, and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entity.

The Transaction constitutes a RTO of Legion by Nextleaf and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, *Share-based Payments* and IFRS 3, *Business Combinations*. As Legion did not qualify as a business according to the definition in IFRS 3, the RTO does not constitute a business combination; rather it is treated as an issuance of common shares by Nextleaf for the net assets of Legion and Legion's public listing, with Nextleaf as the continuing entity. Accordingly, no goodwill or intangible assets were recorded with respect to the transaction as it does not constitute a business.

For accounting purposes, Nextleaf was treated as the accounting parent company (legal subsidiary) and Legion has been treated as the accounting subsidiary (legal parent) in these financial statements. As Nextleaf was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. Legion's results of operations have been included from March 14, 2019.

Net assets of Legion acquired:	**$**
Cash	100,250
Receivables	6,811
Net assets acquired	**107,061**

Consideration paid in RTO of Legion:	**$**
Common shares (fair value of 3,647,029 common shares at $0.35 per share)	1,276,460
Replacement warrants	11,000
Transaction costs - cash	189,668
Total consideration paid	**1,477,128**
Listing expense	**1,370,067**

The Transaction was measured at the fair value of the shares that Nextleaf would have had to issue to the shareholders of Legion, to give the shareholders of Legion the same percentage equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Nextleaf acquiring Legion.

4. RECEIVABLES

The Company's receivables comprise the following:

	June 30, 2019 $	September 30, 2018 $
Accrued Government grant receivable (Note 14)	-	4,243
Sales tax recoverable	190,478	86,938
Trade receivables	-	8,095
	190,478	99,276

5. PREPAID EXPENSES AND ADVANCES

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

	June 30, 2019 $	September 30, 2018 $
Conference fees	9,000	9,000
Expense advances and other	25,080	82,126
Investor relations and promotion	187,679	-
Retainers	-	51,254
	221,759	142,380

6. EQUIPMENT

	Extraction equipment $	Furniture and equipment $	Mobile trailer $	Leasehold improvements $	Total $
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
Cost					
September 30, 2018	2,517,262	182,617	257,173	426,238	3,383,290
Additions	864,967	5,000	-	461,167	1,331,134
June 30, 2019	**3,382,229**	**187,617**	**257,173**	**887,405**	**4,714,424**
Accumulated depreciation					
September 30, 2018	420,319	10,667	47,360	-	478,346
Depreciation	316,587	26,543	31,472	-	374,602
June 30, 2019	**736,906**	**37,210**	**78,832**	**-**	**852,948**
Net book value					
September 30, 2018	2,096,943	171,950	209,813	426,238	2,904,944
June 30, 2019	**2,645,323**	**150,407**	**178,341**	**887,405**	**3,861,476**

Certain of the Company’s equipment was not yet in use as at June 30, 2019, and 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 June 30, 2019, and September 30, 2018, as the Company had not yet obtained licensing for commercial operations, therefore no depreciation was taken during the period/year then ended.

As at June 30, 2019, the Company had paid cash deposits for additional cannabis extraction equipment in the amount of $159,704 (September 30, 2018 - $65,704). The equipment had not yet been received as at June 30, 2019.

During the nine months ended June 30, 2019, depreciation of $374,602 was allocated entirely to expenses (2018 - $1,617), and $nil was allocated to cost of sales (2018 - $209,787).

7. INTANGIBLE ASSET

On June 24, 2019, the Company issued 444,444 common shares with an aggregate fair value of $200,000, to an arm's length party for the acquisition of a U.S. patent pending hydrocarbon extraction process, known as "shatter." The common shares are subject to a four month hold period.

8. SHAREHOLDERS' EQUITY

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

Issued and Outstanding

Transactions for the issue of share capital during the nine months ended June 30, 2019:

- In conjunction with the closing of the RTO (Notes 1 and 3), the Company completed a brokered private placement of 14,285,714 units at a price of $0.35 per unit for gross proceeds of $5,000,000. Each unit comprised of one common share and one common share purchase warrant exercisable at $0.70 per share until March 14, 2021.

  In connection with the private placement and closing of the RTO, the Company issued 569,446 compensatory finders' warrants with a fair value of $105,300 and assumed 112,203 replacement finders' warrants with a fair value of $11,000, respectively. The fair value of the replacement finders' warrants are included as part of consideration paid on closing of the RTO (Note 3).

  Additionally, the Company paid $342,348, in cash share issue costs in connection with completion of the private placement.

- The Company completed a private placement by issuing 10,400,000 units for gross proceeds of $4,160,000. Each unit comprised of one common share and one common share purchase warrant exercisable at $0.70 per share until May 15, 2021. As at June 30, 2019, subscriptions receivable of $423,786 were related to this private placement.

  In connection with this private placement, the Company paid $120,450 in finders' fees and issued 298,625 finders' warrants with an aggregate fair value of $134,381. The finders' warrants are exercisable at $0.40 per share until May 15, 2021. The units are subject to a four month hold period which expires on September 14, 2019.

- The Company issued 43,808 common shares on the exercise of warrants for proceeds of $15,333. In addition, $4,254 representing the fair value of the warrants on initial issuance was re-allocated from reserves to share capital.

- The Company issued 260,713 common shares on the exercise of stock options for proceeds of $91,250. In addition, $45,930 representing the fair value of the stock options on initial vesting was re-allocated from reserves to share capital.

- The Company issued 444,444 common shares at a fair value of $0.45 per share, for an aggregate fair value of $200,000, for the acquisition of a patent (Note 7).

8. SHAREHOLDERS' EQUITY (continued)

Transactions for the issue of share capital during the nine months ended June 30, 2018:

- The Company issued 3,708,252 common shares pursuant to a private placement at $0.1111 per share for gross proceeds of $412,028, of which $342,645 was received during the year ended September 30, 2017 and was recorded as subscriptions received in advance as at September 30, 2017.

- The Company issued 8,275,144 common shares and/or units pursuant to private placements for gross proceeds of $1,153,300.

  The Company incurred cash share issue costs of $80,731 in connection with the above two private placements. Additionally, the Company issued 750,000 finders' warrants with a fair value of $37,500 recorded as share issue costs pursuant to these private placements.

- The Company issued 150,000 shares with a fair value of $27,000 for services provided by a consultant which were recorded as share-based payment expense.

- The Company issued 2,500,000 common shares (finders' shares) 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.

- The Company issued 1,020,960 common shares on the exercise of share purchase warrants whereby no proceeds were received on exercise as the exercise price was applied against the balance owed by the Company to the warrant holders, in the amount of $158,805.

Share issuances subsequent to June 30, 2018, and up to September 30, 2018:

- The Company issued 15,143,691 common shares upon the exercise of finders' warrants for gross proceeds of $3,357,490.

- The Company issued 378,750 common shares on the exercise of share purchase warrants whereby no proceeds were received on exercise as the exercise price was applied against the balance owed by the Company to the warrant holders.

  In connection with the share issuances during the year ended September 30, 2018, $855,768 of the gross proceeds were included within subscriptions receivable as at September 30, 2018. These amounts were collected in full during the nine months ended June 30, 2019.

8. SHAREHOLDERS' EQUITY (continued)

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 form 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.

A summary of the status of the Company's stock options as at June 30, 2019 and September 30, 2018 and changes during the period/year then ended is as follows:

	Nine months ended June 30, 2019		Year ended September 30, 2018	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of period/year	-	-	-	-
Granted - Performance stock options	7,500,000	0.35	-	-
Granted - Regular stock options	6,400,000	0.35	-	-
Assumed on RTO	200,000	0.35	-	-
Exercised	(260,713)	0.35	-	-
Options outstanding, end of period/year	**13,839,287**	**0.35**	-	-

As at June 30, 2019, the Company has stock options outstanding and exercisable as follows:

	Options outstanding #	Options exercisable #	Weighted average Exercise price $	Expiry date	Weighted average remaining life (years)
	114,287	114,287	0.35	May 1, 2022	2.84
(1)	13,725,000	25,000	0.35	March 15, 2024	4.71
	13,839,287	**139,287**	**0.35**		**4.94**

(1) Includes 7,500,000 performance stock options granted to officers and directors of the Company as described below.

8. SHAREHOLDERS' EQUITY (continued)

Stock options (continued)

During the nine months ended June 30, 2019, 13,900,000 stock options were granted to officers, directors, employees and consultants of the Company, with varying vesting terms. Of the stock options granted, 7,500,000 stock options (the "performance stock options") were granted to officers and directors of the Company and vest upon achieving certain milestones.

The assumptions used in the calculation of the fair value of the performance stock options are detailed below. In addition to these assumptions, the Company also estimates the likelihood of achieving the above-mentioned milestones, which impacts the estimated fair value of the options on the grant date. The Company has estimated a 100% likelihood of achieving the milestones.

The Company recorded the fair value of all stock options granted using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. As the Company has limited trading history, the volatility assumption is subject to significant measurement uncertainty. The fair value of the stock options granted was determined using the following weighted average assumptions:

	June 30, 2019
Risk-free interest rate	2.08%
Expected life of options	4.53
Volatility	100%
Dividend rate	0%

The total share-based payment expense for the nine months ended June 30, 2019 was $2,339,103, which includes only those stock options that have met or do not include time-service related vesting conditions during the period. The total share-based payment expense for the nine months ended June 30, 2018, was $27,000, which comprised the fair value of shares issued for services to a consultant.

8. SHAREHOLDERS' EQUITY (continued)

Warrants

As an incentive to complete private placements, the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to warrants attached to units sold in completed private placements. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

A summary of the Company's common share purchase warrants as at June 30, 2019 and September 30, 2018 and changes during the period/year then ended is as follows:

	Nine months ended June 30, 2019		Year ended September 30, 2018	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period/year	750,000	0.25	16,103,799	0.21
Issued - attached to units	24,685,711	0.70	3,708,252	0.22
Issued - finders' warrants	868,071	0.37	750,000	0.25
Replacement finders' warrants assumed on RTO	112,203	0.35	-	-
Exercised	(43,808)	0.35	(16,543,401)	0.22
Expired	(750,000)	0.25	(3,268,650)	0.22
Warrants outstanding, end of period/year	**25,622,177**	**0.69**	750,000	0.25

The following table summarizes information about the warrants outstanding at June 30, 2019:

Warrants #	Weighted average exercise price $	Expiry Date	Weighted average remaining life (years)
68,395	0.35	September 14, 2019	0.21
14,285,711	0.70	March 14, 2019	1.71
569,446	0.35	March 21, 2021	1.73
298,625	0.40	May 14, 2021	1.87
10,400,000	0.70	May 14, 2021	1.87
25,622,177	**0.69**		**1.94**

8. SHAREHOLDERS' EQUITY (continued)

Warrants (continued)

During the nine months ended June 30, 2019, the Company assumed 112,203 replacement finders' warrants in connection with the RTO and issued 569,446 finders' warrants in connection with the completion of its private placement upon completion of the RTO. Additionally, the Company issued 298,625 finders' warrants upon completion of a second private placement that occurred subsequent to the RTO.

The Company recorded the fair value of these compensatory warrants using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. As the Company has limited trading history, the volatility assumption is subject to significant measurement uncertainty. The fair value of the warrants issued was determined using the following weighted average assumptions:

		June 30, 2019
Risk-free interest rate		1.90%
Expected life		1.83
Volatility		100%
Dividend rate		0%
Weighted average fair value of per warrant	$	0.26

Reserves

Reserves is comprised of the accumulated fair value of stock options recognized as share-based payments and the fair value of finders' warrants issued on private placements and assumed on the RTO. Reserves is increased by the fair value of these items on vesting and is reduced by corresponding amounts when the stock options or warrants expire or are exercised or cancelled.

	Warrants $	Stock Options $	Total $
October 1, 2017	48,320	-	48,320
Warrant exercise	(2,976)	-	(2,976)
Warrant exercise - debt settlement	(42,400)	-	(42,400)
Finders' warrants expired	(2,944)	-	(2,944)
Finders' warrants issued	37,500	-	37,500
September 30, 2018	37,500	-	37,500
October 1, 2018	37,500	-	37,500
Equity of Legion Metals	698,045	-	698,045
Elimination of equity of Legion Metals	(698,045)	-	(698,045)
Replacement finders' warrants assumed on RTO	11,000	-	11,000
Finders' warrants issued	239,681	-	239,681
Options vesting	-	2,339,103	2,339,103
Re-allocated on exericse of warrants	(4,254)	-	(4,254)
Re-allocated on exericse of options	-	(45,930)	(45,930)
June 30, 2019	**283,927**	**2,293,173**	**2,577,100**

8. SHAREHOLDERS' EQUITY (continued)

Shareholder Rights Plan

On July 24, 2019, the Company adopted a shareholder rights plan whereby the Company issued one right (the "Right") for $nil consideration in respect of each outstanding common share of the Company to all holders of record on July 23, 2019. The term of the plan is for three years, subject to re-approval by the shareholders of the Company at the 2022 Annual Meeting.

The Rights become exercisable only if a person acquires 20% or more of the common shares of the Company without complying with the "Permitted Bid" provisions in the Plan, other prescribed exemptions, or without the approval of the Board of Directors. Should such an acquisition occur of the Company's common shares, rights holders can purchase common shares of the Company at half the prevailing market price as defined in the Plan at the time the rights become exercisable. Under the Plan, a permitted bid must be made to all shareholders for all shares of the Company, and must be open for acceptance for a minimum of 105 days.

9. 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 nine months ended June 30, 2019 and June 30, 2018 are as follows:

	June 30, 2019 $	June 30, 2018 $
Consulting fees	674,124	87,700
Legal	-	24,585
Share-based payments	1,686,766	-
	2,360,890	112,285

Amounts payable to related parties

The following amounts are payable to related parties and included in accounts payable and accrued liabilities as at June 30, 2019 and September 30, 2018:

	June 30 2019 $	September 30, 2018 $
Officers/Directors - accounts payable and accrued liabilities	60,272	138,286
	60,272	138,286

9. RELATED PARTY TRANSACTIONS

Amounts receivable from related parties

The following amounts are receivable from related parties as at June 30, 2019 and September 30, 2018:

	June 30 2019 $	September 30, 2018 $
Due from related parties	-	102,773
Prepaid expenses to related parties	-	50,477
	-	153,250

During the nine months ended June 30, 2019, the Company reached a tentative agreement with a former director in relation to an amount included within due from related parties. Accordingly, the Company reclassified $79,500 to deposits and wrote-off $5,770 of accrued interest receivable formerly included in due to related parties to administrative expenses.

10. REVENUE AND ADMINISTRATIVE EXPENSES

Revenue and administrative expenses are comprised of the following:

	Three months ended		**Nine months ended**	
	June 30, 2019 $	June 30, 2018 $	**June 30, 2019 $**	June 30, 2018 $
Revenue				
Processing services	-	90,172	-	214,172
Equipment sales	-	-	-	127,236
	-	90,172	-	341,408
Administrative expenses				
General and administrative	87,301	32,015	181,887	87,543
Rent	26,075	6,076	90,973	20,816
Repairs and maintenance	17,852	24,085	45,725	44,126
Research	266	-	55,522	-
Transfer agent and filing fees	28,445	-	68,854	-
	(159,939)	(62,176)	**(442,961)**	(152,485)

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

Fair value risk

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

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 management believes the exposure to credit risk on this amount is 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 June 30, 2019, the Company had working capital of $5,418,123, which is considered sufficient to fund future operations and obligations as they come due, and to allow the Company to meet business objectives.

11. FINANCIAL INSTRUMENTS (continued)

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 June 30, 2019, 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 $35,700.

(ii) Interest rate risk

The Company is not significantly 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 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.

12. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash financing and investing activities during the nine months ended June 30, 2019 and June 30, 2018 as follows:

	June 30, 2019 $	June 30, 2018 $
Non-cash investing activities:		
Issue of common shares included in subscriptions receivable	423,786	-
Fair value of common shares issued for acquisition of intangible asset	200,000	-
Fair value of finders' warrants/units issued	239,681	487,500
Purchases of equipment in accounts payable and accrued liabilities	561,511	-
Transfer of equipment deposits to equipment	-	46,473
Reclassification of prepaid expenses to deposits	6,155	-
Reclassificaiton of due from related parties to deposits	75,000	-

As at September 30, 2018, purchases of equipment in accounts payable and accrued liabilities totaled $429,042.

During the nine months ended June 30, 2019 and June 30, 2018, no amounts were paid for interest or income tax expenses.

13. 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 nine months ended June 30, 2019. The Company is not subject to externally imposed capital requirements.

14. 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.

15. PROMISSORY NOTE RECEIVABLE

The Company has provided a promissory note to an equipment supplier which bears annual interest at 3%. As at June 30, 2019, the total amount receivable by the Company was $528,520 (comprising $520,025 principal, and $8,495 accrued interest receivable), (September 30, 2018 - $55,000 principal, and $nil accrued interest receivable).

16. 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 concluded in August 2019. The Company recorded amounts reimbursable from eligible expenditures as income from Government grant. As at June 30, 2019, $nil (September 30, 2018 - $4,243) is included in receivables (Note 4).

17. COMMITMENT

Warehouse lease

The Company has entered into a warehouse lease agreement for the lease of its centralized processing facility (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 $
(1) 2019	15,951
2020	63,804
2021	65,113
2022	68,712
2023	52,424
	266,004

(1) Represents the remaining commitment for the fiscal year ending September 30, 2019. For the nine months ended June 30, 2019, these amounts are included in rent (Note 10).

18. SUBSEQUENT EVENT

On July 8, 2019, 150,000 stock options were granted to a director of the Company. The stock options vest over one year, are exercisable at $0.50 each, and have a term of five years.