Nextleaf Solutions Ltd.

(formerly Legion Metals Corp.)

Condensed Interim Consolidated Financial Statements

For the nine months ended

June 30, 2020

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Nextleaf Solutions Ltd. (“the Company”) for the three and nine months ended June 30, 2020 and June 30, 2019, 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.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

As at June 30, 2020 and September 30, 2019

	Note	**June 30, 2020 $**	September 30, 2019 $
Assets			
Current assets			
Cash		1,906,965	4,295,987
Receivables and prepayments	4,8	708,730	205,673
Loans receivable - current	13	152,970	75,000
		2,768,665	4,576,660
Non-current assets			
Deposits		7,155	6,155
Loans receivable	13	522,755	511,535
Equipment deposits	5	609,256	338,148
Property and equipment	5	5,612,735	4,017,340
Intangible assets	6	1,088,943	529,602
		7,840,844	5,402,780
Total assets		**10,609,509**	9,979,440
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	8	934,844	1,026,389
Lease liability - current	5	65,112	-
		999,956	1,026,389
Non-current liabilities			
Lease liability	5	102,217	-
Loan payable	2	40,000	-
Total liabilities		**1,142,173**	1,026,389
Shareholders' equity			
Share capital	7	20,653,947	17,355,831
Reserves	7	3,970,309	3,056,486
Deficit		(15,156,920)	(11,459,266)
Total shareholders' equity		**9,467,336**	8,953,051
Total liabilities and shareholders' equity		**10,609,509**	9,979,440
Nature of operations and going concern	1		
Subsequent events	17		

Approved on behalf of the Board of Directors on August 31, 2020:

"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)

(Expressed in Canadian Dollars)

For the three and nine months ended June 30,

		Three months ended		Nine months ended	
	Note	**June 30, 2020 $**	June 30, 2019 $	**June 30, 2020 $**	June 30, 2019 $
Licensing revenue	15	-	-	455,217	-
Gross profit		**-**	-	**455,217**	-
Expenses					
Administrative expenses		126,477	141,821	272,886	341,714
Amortization	6	1,961	-	5,883	-
Depreciation	5	123,116	184,342	534,252	374,602
Directors' fees	8	17,770	-	49,570	-
Finance costs	5	4,352	-	13,903	-
Foreign exchange loss (gain)		(151,424)	(88,899)	(206,232)	42,412
Investor relations and advertising		159,628	126,738	453,273	376,974
Management fees	8	137,900	103,200	358,700	324,000
Professional fees and consulting		348,605	498,959	998,608	1,109,112
Research, extraction and lab supplies		146,992	18,118	250,972	101,247
Share-based payments	7,8	107,207	406,003	903,292	2,339,103
Wages and salaries	2	59,983	146,934	576,130	400,000
Loss from operating expenses		**(1,082,567)**	(1,537,216)	**(4,211,237)**	(5,409,164)
Government assistance	14	57,138	43,495	57,138	74,481
Interest income		4,675	4,263	14,190	9,765
Listing expense	16	-	-	-	(1,414,367)
		61,813	47,758	**71,328**	(1,330,121)
Loss and comprehensive loss for the period		**(1,020,754)**	(1,489,458)	**(3,684,692)**	(6,739,285)
Loss per share					
Weighted average number of common shares outstanding:					
Basic #		**113,623,102**	98,470,516	**110,134,468**	92,616,275
Diluted #		**113,623,102**	98,470,516	**110,134,468**	92,616,275
Basic loss per share		**(0.01)**	(0.02)	**(0.03)**	(0.07)
Diluted loss per share		**(0.01)**	(0.02)	**(0.03)**	(0.07)

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)

(Expressed in Canadian Dollars)

For the nine months ended June 30,

	Note	**2020** **$**	2019 $
Operating activities			
Loss and comprehensive loss for the period		(3,684,692)	(6,739,285)
Adjustments for:			
Amortization		5,883	-
Depreciation		534,252	374,602
Finance costs		13,903	-
Professional fees and consulting - warrants issued		24,500	-
Share-based payments		903,292	2,339,103
Listing expense - non-cash portion		-	1,224,699
Accrued interest - loans receivable		(14,190)	(8,495)
Non-cash working capital items:			
Receivables and prepayments		(503,057)	(169,925)
Due from related parties		-	27,773
Deposits		(1,000)	-
Accounts payable and accrued liabilities		489,509	25,925
		(2,231,600)	(2,925,603)
Investing activities			
Funds advanced for loans receivable		(75,000)	(465,025)
Payment of equipment deposits		-	(150,000)
Refund of equipment deposits		-	56,000
Purchases of property and equipment		(2,785,031)	(1,198,665)
Payments for intangible assets		(273,686)	-
Cash acquired on reverse acquisition	16	-	100,250
		(3,133,717)	(1,657,440)
Financing activities			
Issuance of units/shares, net of share issue costs		2,984,147	8,379,998
Collection of subscriptions receivable		-	855,768
Lease payments	5	(47,852)	-
Loan proceeds received	2	40,000	-
		2,976,295	9,235,766
Change in cash		**(2,389,022)**	4,652,723
Cash, beginning of period		**4,295,987**	837,604
Cash, end of period		**1,906,965**	5,490,327

Supplemental cash flow information 10

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)

(Expressed in Canadian Dollars)

For the nine months ended June 30, 2020 and June 30, 2019

	Common shares #	Share capital $	Reserves $	Deficit $	Total $
September 30, 2018	78,693,393	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 16):					
Issuance of shares pursuant to reverse acquisition	3,647,022	1,276,460	-	-	1,276,460
Replacement warrants issued	-	-	11,000	-	11,000
Replacement options issued	-	-	44,300	-	44,300
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 - intangible assets	444,444	200,000	-	-	200,000
Share-based payments	-	-	2,339,103	-	2,339,103
Loss and comprehensive loss for the period	-	-	-	(6,739,285)	(6,739,285)
June 30, 2019	107,775,094	17,080,494	2,621,400	(9,452,916)	10,248,978
October 1, 2019, as previously reported	108,123,044	17,355,831	3,056,486	(11,459,266)	8,953,051
Impact of change in accounting policy (Note 2)	-	-	-	(12,962)	(12,962)
October 1, 2019, adjusted balance	108,123,044	17,355,831	3,056,486	(11,472,228)	8,940,089
Private placement units issued	10,200,738	3,060,221	-	-	3,060,221
Share issue costs - cash	-	(76,074)	-	-	(76,074)
Share issue costs - warrants	-	(34,200)	34,200	-	-
Shares issued - intangible assets	937,500	300,000	-	-	300,000
Warrants issued - services	-	-	24,500	-	24,500
Share-based payments	176,318	48,169	855,123	-	903,292
Loss and comprehensive loss for the period	-	-	-	(3,684,692)	(3,684,692)
June 30, 2020	**119,437,600**	**20,653,947**	**3,970,309**	**(15,156,920)**	**9,467,336**

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" or, 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'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".

The Company is a Canadian cannabis extractor and processor, with a focus on developing intellectual property for the extraction, distillation and formulation of cannabinoids. The Company has developed an intellectual property portfolio, which includes a number of issued and pending patents (Note 6). The Company commercializes its intellectual property portfolio through IP licensing, and supplying CBD and THC oils through Nextleaf Labs Ltd., a Health Canada Licensed Standard Processor, in which the Company is in the process of acquiring (see below).

As at June 30, 2020, the Company was in the commissioning phase of commencing commercial production. Additionally, Labs had received biomass for the intent producing distillate. Commercial production for the Company commenced in August 2020, subsequent to the acquisition of Labs.

On September 9, 2019, Health Canada issued a Standard Processing Licence on the Company's facility to Nextleaf Labs Ltd. ("Labs"). Labs is a private company incorporated in the province of British Columbia and wholly-owned by a consultant of the Company. On October 11, 2019, the Company entered into a Share Purchase Agreement to acquire all of the issued and outstanding equity of Labs. The acquisition of Labs closed on July 28, 2020 (Note 3). On January 22, 2020, Health Canada granted a Cannabis Research Licence to Labs on the Company's Standard Processing Facility.

On March 14, 2019, Legion 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. The acquisition was completed by way of an Acquisition and Arrangement Agreement (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, these financial statements are a continuation of Nextleaf. The net assets of Legion at the date of the RTO are deemed to have been acquired by Nextleaf (Note 16). These condensed interim consolidated financial statements include the results of operations of Legion from March 14, 2019.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations. There are travel restrictions and health and safety concerns that may delay the Company's operational objectives. Operations depend on safeguarding all personnel during the outbreak, which may be prohibitive in certain aspects. Nonetheless, the Company has implemented prevention measures at its facilities. Various Government wage and loan subsidies are available to qualified companies to assist them with operating costs during the pandemic, and the various programs are constantly being expanded and relaxed, which may qualify the Company for additional assistance. To date, the Company has qualified for and received a $40,000 loan from the Government of Canada, and a wage subsidy of $39,529 (Note 2).

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

As at June 30, 2020, the Company had working capital of $1,768,709. 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 commercializing its patents, commencing commercial operations, and continuing to obtain financing. These conditions may cast significant doubt about 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, 2019, 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 measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

Principles of consolidation

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

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

Subsequent to June 30, 2020, the Company closed the acquisition of Nextleaf Labs Ltd. (Note 3).

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.

These financial statements account for Legion as a controlled entity (accounting acquiree) requiring consolidation since the date of the RTO (Notes 1, 16), effective March 14, 2019.

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, 2020. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

Government assistance

During the nine months ended June 30, 2020, the Company determined the impact on the Company's ability to generate revenue as a result of the COVID-19 pandemic, qualified the Company to apply for the Canadian Emergency Wage Subsidy ("CEWS") provided by the Government of Canada. As a result, the Company has recorded a reduction in wages and salaries of $39,529.

During the nine months ended June 30, 2020, the Company qualified for a government-guaranteed bank loan of $40,000 which is interest-free. If the balance of the loan is repaid on or before December 31, 2022, 25% ($10,000) will be forgiven by the Canadian government. Funds can be used to pay non-deferrable operating expenses including payroll.

2. SIGNIFICANT ACCOUNTING POLICIES

New accounting standards

The Company adopted the following accounting standards that were effective for the Company beginning on October 1, 2019.

New standard IFRS 16 - Leases

IFRS 16 - *Leases* ("IFRS 16") was issued by the IASB on January 13, 2016, replaced IAS 17, *Leases*. It was effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 requires a single, on-balance sheet accounting model that is similar to current finance lease accounting. Leases become an on-balance sheet liability that attract interest, together with a new asset.

The most significant effect of the new standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would have formerly been accounted for as operating leases.

The Company has a lease on its processing facility including corporate offices. In the context of IFRS 16, a ROU asset of $188,316 and a lease liability of $201,278 were recognized as at October 1, 2019 (Note 5), in accordance with the modified retrospective approach, which resulted in an aggregate $12,962 increase to deficit. The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's weighted average incremental borrowing rate of approximately 10% on October 1, 2019. The ROU asset (recognized within property and equipment) was measured at an amount equal to the corresponding initial lease liability.

On adoption, the following practical expedients were permitted by IFRS 16, but were not applicable to the Company:

- Accounting for leases with a remaining term of less than twelve months as at October 1, 2019, as short-term leases; and
- Accounting for lease payments as an expense for leases of low-value assets.

The modified retrospective approach does not require restatement of prior period comparative financial information and is applied prospectively. The application of IFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include: determining contracts that are within the scope of IFRS 16; determining the contract term; and determining the interest rate used for the discounting of future cash flows.

The impact on profit or loss was an elimination of rent expense (within administrative expenses), and the recognition of depreciation of the ROU asset, and interest (finance costs) on the lease liability. The Company's lease is denominated in Canadian dollars, therefore there was no additional volatility in foreign exchange amounts recognized in profit or loss. See Note 5 for additional details.

New Interpretation IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 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.

There were no reporting changes as a result of adopting the new Interpretation.

(Expressed in Canadian Dollars)

3. SHARE PURCHASE AGREEMENT

On October 11, 2019, the Company entered into a Share Purchase Agreement to acquire all of the issued and outstanding shares of Nextleaf Labs Ltd. ("Labs") (Note 1). The acquisition closed on July 28, 2020 whereby the Company issued 1,000,000 common shares of the Company to the seller of Labs for total consideration of $385,000 ($0.385 per share). Other than owning the Standard Processing Licence issued by Health Canada on the Company's facility, Labs did not any operations of significance, nor did it own other material assets or liabilities, as of the acquisition date other than the loan due to the Company as described in Note 13.

The acquisition of Labs subsequent to June 30, 2020, will be accounted for as an asset acquisition in accordance with the guidance provided in IFRS 2, *Share-based Payments* as Labs does not qualify as a business according to the definition in IFRS 3, *Business Combinations* ("IFRS 3"). Accordingly, the acquisition does not constitute a business combination; rather it is treated as an issuance of common shares by the Company for the net assets of Labs. As at the date of authorization of these financial statements, the initial acquisition accounting of Labs is incomplete. Accordingly, the Company will provide disclosure in accordance with IFRS 3 in respect of the acquisition of Labs within its financial statements for the year ended September 30, 2020.

4. RECEIVABLES AND PREPAYMENTS

The Company's receivables and prepayments comprise the following:

	June 30, 2020	September 30, 2019
	$	$
Other receivable	57,138	-
Prepaid expenses	244,246	162,201
Sales tax recoverable	79,368	43,472
Trade receivable	327,978	-
	708,730	205,673

(Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

	Extraction equipment $	Furniture and equipment $	Mobile trailer $	Leasehold improvements $	Right-of-use asset $	Total $
Cost						
September 30, 2018	2,517,262	182,617	257,173	426,238	-	3,383,290
Additions	1,000,303	5,000	-	655,740	-	1,661,043
Disposal	(64,990)	-	-	-	-	(64,990)
September 30, 2019	3,452,575	187,617	257,173	1,081,978	-	4,979,343
Accumulated depreciation						
September 30, 2018	420,319	10,667	47,360	-	-	478,346
Depreciation	411,172	35,390	41,964	4,880	-	493,406
Disposal	(9,749)	-	-	-	-	(9,749)
September 30, 2019	821,742	46,057	89,324	4,880	-	962,003
Cost						
September 30, 2019	3,452,575	187,617	257,173	1,081,978	-	4,979,343
Additions	856,520	16,258	-	1,775,989	-	2,648,767
Reclassified (Note 10)	(707,436)	-	-	-	-	(707,436)
Adoption of IFRS 16 (Note 2)	-	-	-	-	188,316	188,316
June 30, 2020	**3,601,659**	**203,875**	**257,173**	**2,857,967**	**188,316**	**7,108,990**
Accumulated depreciation						
September 30, 2019	821,742	46,057	89,324	4,880	-	962,003
Depreciation	345,053	21,974	25,177	104,323	37,725	534,252
June 30, 2020	**1,166,795**	**68,031**	**114,501**	**109,203**	**37,725**	**1,496,255**
Net book value						
September 30, 2019	2,630,833	141,560	167,849	1,077,098	-	4,017,340
June 30, 2020	**2,434,864**	**135,844**	**142,672**	**2,748,764**	**150,591**	**5,612,735**

Certain of the Company's extraction equipment was not yet in use as at June 30, 2020, and September 30, 2019. 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.

Additionally, leasehold improvements were considered to be in use effective September 6, 2019, the date which commercial operations at the facility were permitted to begin. As at June 30, 2020, the remaining term of the Company's facility lease was 3.00 years, before considering extension options.

Equipment deposits:

The Company paid cash deposits for cannabis extraction equipment which had not yet been received as at June 30, 2020 and September 30, 2019. A continuity of equipment deposits is as follows:

	June 30, 2020 $	September 30, 2019 $
Balance, beginning of period/year	338,148	65,704
Deposits paid	-	328,444
Deposits refunded	-	(56,000)
Transferred from property and equipment	278,394	-
Transferred to property and equipment	(7,286)	-
Balance, end of period/year	**609,256**	338,148

(Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

Lease liability:

The Company's ROU asset and related lease liability pertains to its processing facility and corporate office lease in Coquitlam, BC. The lease is for the period from July 1, 2018 to June 30, 2023.

A reconciliation of the carrying amount of the lease liability for the nine months ended June 30, 2020 is as follows:

	June 30, 2020 $
October 1, 2019 (Note 2)	201,278
Lease payments	(47,852)
Lease interest (finance costs)	13,903
June 30, 2020	**167,329**
Current portion of lease liability	**65,112**
Non-current portion of lease liability	**102,217**
	167,329

As at June 30, 2020, the total undiscounted amount of the estimated future cash flows to settle the Company's lease liability over the remaining lease term is as follows:

Fiscal Year	Total $
2020 (remaining)	16,278
2021	66,012
2022	69,120
2023	52,763
Undiscounted amount of lease liability	**204,173**
Future finance charges	(36,844)
Total	**167,329**

(Expressed in Canadian Dollars)

6. INTANGIBLE ASSETS

Intangible assets include patents and formulations acquired by the Company for cash and non-cash consideration. Additionally, intangible assets include application costs for the Company's issued and pending patents which have been capitalized from the date Health Canada issued the Standard Processing Licence to Labs (Notes 1 and 3).

	Shatter patent $	Cannabinoid formulations $	Patents issued / pending $	Total $
Cost				
September 30, 2018	-	-	-	-
Additions	200,000	252,550	78,158	530,708
September 30, 2019	200,000	252,550	78,158	530,708
Accumulated amortization				
September 30, 2018	-	-	-	-
Amortization	-	-	1,106	1,106
September 30, 2019	-	-	1,106	1,106
Cost				
September 30, 2019	200,000	252,550	78,158	530,708
Additions	-	373,450	191,774	565,224
June 30, 2020	**200,000**	**626,000**	**269,932**	**1,095,932**
Accumulated amortization				
September 30, 2019	-	-	1,106	1,106
Amortization	-	-	5,883	5,883
June 30, 2020	**-**	**-**	**6,989**	**6,989**
Net book value				
September 30, 2019	200,000	252,550	77,052	529,602
June 30, 2020	**200,000**	**626,000**	**262,943**	**1,088,943**

Shatter patent

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." Amortization on the shatter patent will commence once the patent is issued. As at June 30, 2020, and as at the date of these financial statements, the shatter patent pending and under review by the U.S. Patent and Trademark Office.

Water-soluble cannabinoid formulations

On August 22, 2019, the Company entered into a Research Agreement with a private company (the "Researcher") for the research and development of water-soluble cannabinoid formulations for the Company that can be sold by the Company to beverage producers for the production of cannabinoid-infused natural water beverages.

Pursuant to the Agreement, the Company will acquire the intellectual property in accordance with the following staged consideration payable by the Company:

- $35,000 paid upon execution of the Agreement (paid, including non-recoverable sales taxes);
- $100,000 in cash (paid, including non-recoverable sales taxes), and issuance of common shares with an aggregate fair value of $100,000 (issued 196,078 common shares at a fair value of $0.51 each); and
- $65,000 in cash (paid, including non-recoverable sales taxes), and common shares with an aggregate fair value of $300,000 (issued).

Amortization on cannabinoid formulations commences once the formulations are complete and ready for use and commercialization.

7. SHAREHOLDERS' EQUITY

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

Issued and Outstanding

Transactions for the issue of share capital during the nine months ended June 30, 2020:

- On February 6, 2020, the Company issued 937,500 common shares with an aggregate fair value of $300,000 ($0.32 per share) for the acquisition of cannabinoid formulations (Note 5).

- Between April and June 2020, the Company issued 176,318 common shares pursuant to the Employee Equity Participation Plan (details below) for non-cash consideration at an aggregate fair value of $48,169. The fair value of the common shares was recorded as share-based payments expense and credited to share capital.

- On May 28, 2020, the Company completed a non-brokered private placement of units comprising two tranches for the aggregate issuance of 10,200,738 Units at a price of $0.30 per unit for gross proceeds of $3,060,221. Each unit consists one common share and one common share purchase warrant with each warrant exercisable into one common share at an exercise price of $0.50 until either May 21, 2022 or May 28, 2022. The residual value of the warrants attached to the private placement units was determined to be $nil.

  Cash finders' fees totalling $58,742 were incurred in respect of the placement, and legal and filing fees amounted to $17,332. Additionally, the Company issued 195,807 finders' warrants at a fair value of $34,200, with each finders' warrant exercisable at $0.30 until either May 21, 2022 or May 28, 2022.

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 18), 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. The Company also issued 112,203 replacement warrants and 200,000 replacement stock options with an aggregate fair value of $55,300. The fair value of the replacement warrants and replacement stock options are included as part of consideration paid on closing of the RTO (Note 16).

  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. The residual value of the warrants attached to the private placement units was determined to be $nil.

  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.

7. SHAREHOLDERS' EQUITY (continued)

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

- 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 6).

Escrowed shares

The Company entered into an Escrow Agreement in connection with closing of the RTO on March 14, 2019, in relation to certain of its common shares which were placed in escrow. Pursuant to the Escrow Agreement the escrowed common shares are subject to a timed release schedule whereby a portion of the escrowed shares will be released beginning on March 14, 2019, and every six months thereafter until March 14, 2022.

As at June 30, 2020, 18,088,054 common shares were held in escrow (September 30, 2019 – 22,610,068).

Shareholder Rights Plan

On July 23, 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.

Employee Equity Participation Plan

Effective April 1, 2020, the Company implemented an Employee Equity Participation Plan (the "Plan"). The Plan is fully voluntary and permits non-executive employees to receive common shares of the Company in lieu of a portion of an employee's cash compensation.

As at and during the nine months ended June 30, 2020, a total of 176,318 common shares of the Company have been issued to non-executive employees under the Plan.

(Expressed in Canadian Dollars)

7. 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 but may not be less than the closing market price of the Company's common shares on the date of grant.

A summary of the status of the Company's stock options as at June 30, 2020 and September 30, 2019 and changes during the period/year then ended is as follows:

	Period ended June 30, 2020		Year ended September 30, 2019	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of period/year	13,989,287	0.35	-	-
Granted	450,000	0.50	6,550,000	0.35
Granted - Performance stock options	-	-	7,500,000	0.35
Replaced on RTO	-	-	200,000	0.35
Exercised	-	-	(260,713)	0.35
Options outstanding, end of period/year	**14,439,287**	**0.36**	13,989,287	0.35

As at June 30, 2020, 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	1.84
(1)	13,725,000	13,400,000	0.35	March 15, 2024	3.71
	150,000	150,000	0.50	July 8, 2024	4.02
	300,000	-	0.50	October 15, 2024	4.30
	150,000	-	0.50	October 16, 2024	4.30
	14,439,287	**13,664,287**	**0.36**		**3.72**

(1) Includes 7,500,000 performance stock options held by Officers and Directors of the Company.

(Expressed in Canadian Dollars)

7. SHAREHOLDERS' EQUITY (continued)

Stock options (continued)

The Company recorded the fair value of the stock options granted during the nine months ended June 30, 2020, 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 was determined using the following weighted average assumptions:

	June 30, 2020
Risk-free interest rate	1.57%
Expected life of options	5.00
Expected volatility	100%
Dividend rate	0%

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. 7,500,000 of these stock options (the "performance stock options") were granted to Officers and Directors of the Company and vested upon achieving the following milestones: Milestone 1 – Obtaining a Health Canada Research License (competed, which triggered the vesting of 26% of these vested); and Milestone 2 – Obtaining a Health Canada Standard Processing License (completed, which triggered the vesting of 74% of these options).

During the nine months ended June 30, 2019, the Company also issued 200,000 replacement stock options (Note 16) in connection with the RTO (the "RTO Replacement Options").

On initial recognition of the share-based payment expense associated with the performance stock options, the Company estimated the likelihood of achieving the milestones as being 100%. This estimate impacted the estimated fair value of the options on the grant date. As at September 30, 2019, the Company had met the milestones, and no change in estimation or value of the stock options granted occurred.

The Company recorded the fair value of all stock options granted, as well as the RTO Replacement Options, 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 values were 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%

Total share-based payment expense for the nine months ended June 30, 2020 was $903,292, which includes stock options that vested during the period then ended ($855,123), and the fair value of shares issued pursuant to the Employee Equity Participation Plan ($48,169).

Total share-based payment expense for the nine months ended June 30, 2019 was $2,339,103, which included only those stock options that vested during the period then ended.

(Expressed in Canadian Dollars)

7. SHAREHOLDERS' EQUITY (continued)

Warrants

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

A summary of the Company's common share purchase warrants as at June 30, 2020 and September 30, 2019 and changes during the period/year then ended is as follows:

	Period ended June 30, 2020		Year ended September 30, 2019	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period/year	25,470,305	0.69	750,000	0.25
Issued - attached to units	10,200,738	0.50	24,685,711	0.70
Issued - finders' warrants	195,807	0.30	868,071	0.37
Issued - services	250,000	0.40	-	-
Replaced on RTO - finders' warrants	-	-	112,203	0.35
Exercised	-	-	(195,680)	0.35
Expired	-	-	(750,000)	0.25
Warrants outstanding, end of period/year	**36,116,850**	**0.63**	25,470,305	0.69

The following table summarizes information about the warrants outstanding at June 30, 2020:

Warrants #	Weighted average exercise price $	Expiry Date	Weighted average remaining life (years)
14,285,711	0.70	March 14, 2021	0.70
485,969	0.35	March 21, 2021	0.72
250,000	0.40	March 21, 2021	0.72
298,625	0.40	May 15, 2021	0.87
10,400,000	0.70	May 15, 2021	0.87
6,666,667	0.50	May 21, 2022	1.89
66,933	0.30	May 21, 2022	1.89
3,534,071	0.50	May 28, 2022	1.91
128,874	0.30	May 28, 2022	1.91
36,116,850	**0.63**		**1.10**

During the nine months ended June 30, 2020, the Company issued 250,000 warrants with an exercise price of $0.40 expiring on March 21, 2021, in exchange for past consulting services provided by a third-party.

During the nine months ended June 30, 2019, the Company issued 112,203 replacement finders' warrants (Note 16) in connection with the RTO (the "RTO Replacement Warrants") and issued 569,446 finders' warrants in connection with the completion of the private placement related to the RTO. The Company recorded the fair value of the compensatory finders' warrants, and the RTO Replacement 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 values were determined using the following weighted average assumption: a risk free-rate of 1.90%, term of 1.83 years, expected volatility of 100%, and a dividend yield of 0%. The resulting weighted average fair value per warrant was $0.26.

(Expressed in Canadian Dollars)

7. SHAREHOLDERS' EQUITY (continued)

Reserves

Reserves is comprised of the accumulated fair value of stock options recognized as share-based payments, the fair value of finders' warrants issued on private placements and assumed on the RTO, and the fair value of common shares issued pursuant to the Company's Employee Equity Participation Plan. Reserves is increased by the fair value of these items on vesting/issuance and is reduced by corresponding amounts when stock options or warrants expire or are exercised or cancelled.

	Stock options $	Warrants $	Common shares $	Total $
September 30, 2018	-	37,500	-	37,500
RTO Replacement Warrants issued	-	11,000	-	11,000
RTO Replacement Options issued	-	44,300	-	44,300
Finders' warrants issued	-	239,681	-	239,681
Options vesting	2,339,103	-	-	2,339,103
Re-allocated on exercise of warrants	-	(4,254)	-	(4,254)
Re-allocated on exercise of options	(45,930)	-	-	(45,930)
June 30, 2019	2,293,173	328,227	-	2,621,400
September 30, 2019	2,750,342	306,144	-	3,056,486
Finders' warrants issued	-	34,200	-	34,200
Warrants issued - services	-	24,500	-	24,500
Options vesting	855,123	-	-	855,123
Common shares issued - Employee Equity Participation Plan	-	-	48,169	48,169
June 30, 2020	**3,605,465**	**364,844**	**48,169**	**3,970,309**

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS

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

Key management personnel compensation

The remuneration of key management for the nine months ended June 30, 2020 and June 30, 2019 is as follows:

	June 30, 2020 $	June 30, 2019 $
Directors' fees	49,570	-
Management fees	358,700	324,000
Share-based payments	564,753	1,686,766
	973,023	2,010,766

Related party balances

Related party balances as at June 30, 2020 and September 30, 2019 are as follows:

	June 30, 2020 $	September 30, 2019 $
Balances included in accounts payable and accrued liabilities:		
Accrued liabilities - directors' fees	28,600	-
Amounts payable - management fees	141,131	50,345
Balances included in receivables and prepayments:		
Prepaid management fees	53,000	60,000
Expense advances	-	8,573

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 $75,000 to deposits and wrote-off $5,770 of accrued interest receivable formerly included in due to related parties to administrative expenses. As at September 30, 2019, the Company determined that the timing and recoverability of the remaining $75,000 was uncertain. As a result, $75,000 was written-off to administrative expenses during the year then ended.

9. FINANCIAL INSTRUMENTS

Fair value

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

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

Classification of financial instruments

Financial assets:	Classification:	Subsequent measurement:
Cash	FVTPL	Fair value
Trade receivable	Amortized cost	Amortized cost
Loans receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost

Financial liabilities:	Classification:	Subsequent measurement:
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost
Lease liability	Other financial liabilities	Amortized cost

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 financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. As at June 30, 2020, credit risk for the Company arises from cash, receivables, deposits, and loans receivable. The carrying amount of these financial assets represents the maximum credit exposure as at June 30, 2020.

Cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk on cash is considered insignificant. As at June 30, 2020, the Company's trade receivable was due from a single customer in addition to sales tax recoverable due from the Government of Canada. Management considers the credit risk to be low with respect to sales tax recoverable. The Company's trade receivable is current, and management considers the credit risk to be low with this customer.

Credit risk relating to loans receivable is considered moderate since the portion relating to a promissory note provided to an equipment supplier does not have specific terms of repayment, of which repayment may occur in excess of one year from the statement of financial position date.

9. FINANCIAL INSTRUMENTS (continued)

Impairment of financial assets

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

- Trade receivable;
- Loans receivable; and
- Deposit.

While cash is also subject to the impairment requirements of IFRS 9, the risk is insignificant. Equipment deposits are not included as these deposits are intended for the acquisition of equipment without any intention of receiving cash refunds (except for a specific historical occurrence (Note 5)).

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

To measure the expected credit losses, trade receivable, deposit, and loans receivable are grouped by debtor, and each debtor's circumstances are reviewed. There is one debtor for trade receivable, two debtors for loans receivable, and one debtor for deposit (which represents the security deposit on the Company's facility). The expected loss amount, if any, is based on historical payment profiles, and the corresponding historical credit losses experienced within this period for these debtors.

As at June 30, 2020, the loss allowance was $nil for trade receivable, deposit, and loans receivable. There has been no historical loss allowance recorded on these items.

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

Impairment losses are presented as loss provisions within profit or loss. Subsequent recoveries of amounts previously written-off are credited against the same line item.

9. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company has been successful in raising equity financing in the past; however, there is no assurance that it will be able to do so in the future. As at June 30, 2020, the Company had working capital of $1,768,709, which is considered sufficient to fund future operations and obligations as they come due, and to allow the Company to meet business objectives for at least the next twelve months (Note 1).

Market risk

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

(i) Currency risk

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

As at June 30, 2020, 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 $37,100 (2019 - $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.

10. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash investing and financing activities during the nine months ended June 30, 2020 and June 30, 2019 as follows:

	June 30, 2020 $	June 30, 2019 $
Non-cash investing activities:		
Reclassification of prepaid expenses to deposits	-	6,155
Transfer of equipment deposits to equipment	7,286	-
Transfer of equipment to equipment deposits (Note 5)	707,436	-
Reduction to accounts payable and accrued liabilities on transfer of equipment to equipment deposits	(429,042)	-
Purchases of property and equipment in accounts payable and accrued liabilities	52,368	795,338
Recognition of property and equipment as an ROU asset (Note 5)	188,316	-
Intangible asset costs in accounts payable and accrued liabilities	16,143	-
Reclassification of due from related parties to deposits	-	75,000
Non-cash financing activities:		
Fair value of common shares issued for acquisition of intangible asset	300,000	-
Fair value of finders' warrants/units issued	34,200	105,300

During the nine months ended June 30, 2020 and June 30, 2019, no amounts were paid for interest or income tax expenses.

(Expressed in Canadian Dollars)

11. CAPITAL RISK MANAGEMENT

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company 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, 2020. The Company is not subject to externally imposed capital requirements.

12. 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.

13. LOANS RECEIVABLE

A summary of the Company's loans receivable as at June 30, 2020 and September 30, 2019 and changes during the period/year then ended is as follows:

	June 30, 2020 $	September 30, 2019 $
Balance, beginning of period/year	586,535	55,000
Advances	75,000	520,000
Interest accrual (interest income)	14,190	11,535
Balance, end of period/year	**675,725**	586,535
Current portion	**152,970**	75,000
Non-current portion	**522,755**	511,535

Non-current portion: During the year ended September 30, 2018, the Company provided a promissory note to an equipment supplier which bears annual interest at 3%. As at June 30, 2020, the total amount receivable by the Company was $522,755 (comprising $500,000 principal, and $22,755 accrued interest receivable).

As at September 30, 2019, principal of $500,000, and $11,535 in accrued interest was receivable. This portion of loans receivable is classified as non-current.

Current portion: During the year ended September 30, 2019, the Company advanced $75,000 to the sole shareholder of Labs (classified as current) in connection with the Share Purchase Agreement entered into on October 11, 2019 (Note 3). The Company advanced an additional $75,000 to the sole shareholder of Labs during the nine months ended June 30, 2020. The loan was used for the initial working capital of Labs, and bears interest at 5% per annum.

On July 28, 2020, the Company completed the acquisition of Labs and the loan was included within the purchase price allocation (Note 3). As at June 30, 2020, the total amount receivable by the Company was $152,970 (comprising $150,000 principal, and $2,970 accrued interest receivable).

14. GOVERNMENT ASSISTANCE

Scientific Research and Experimental Development (SR&ED)

SR&ED is a federal tax incentive program designed to encourage Canadian businesses of all sizes and in all sectors to conduct research and development in Canada.

During the nine months ended June 30, 2020, the Company filed its SR&ED refund application for its fiscal 2019 expenditures. The SR&ED claim was approved and subsequent to June 30, 2020, the Company received a refund of $57,138 which is recorded within receivables and prepayments as at June 30, 2020.

During the year ended September 30, 2019, the Company received $195,366 from the SR&ED Program.

National Research Council Canada (“NRC”) – Industrial Research Assistance Program

The Company entered into a Contribution Agreement with the NRC to receive a grant under the Industrial Research Assistance Program (“IRAP”) for a project pertaining to the removal of chlorophyll and like impurities from crude oil extracts.

The agreement came into effect on July 1, 2018 and concluded in August 2019. During the year ended September 30, 2019, $74,481 was received under the grant. As at June 30, 2020, there was no agreement in effect. Accordingly, no amounts were accrued as at June 30, 2020.

15. ROYALTY AGREEMENT

On December 16, 2019, the Company entered into a Licence and Distribution Royalty Agreement (the “Royalty Agreement”) with a private British Columbia company (the “Licensee”). Pursuant to the Royalty Agreement, the Company granted the Licensee a non-exclusive Licence for the use of certain issued and pending patents (the “Licenced Patents”) in exchange for a 20% royalty on the Licensee’s gross revenue. The Royalty Agreement is for an undefined term.

During the nine months ended June 30, 2020, the Company recognized licensing revenue of $455,217 (2019 - $nil) in connection with the Royalty Agreement.

(Expressed in Canadian Dollars)

16. REVERSE ACQUISITION

As described in Note 1, on March 14, 2019, Legion 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 an 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.

	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 (Note 7)	11,000
Replacement options (Note 7)	44,300
Transaction costs - cash	189,668
Total consideration paid	**1,521,428**
Listing expense	**1,414,367**

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. Additionally, consideration paid by Nextleaf includes the fair value of replacement options and warrants issued in respect of stock options and warrants outstanding in Legion at the date of the RTO, to give effect to the dilutive effect of these instruments to the shareholders of Nextleaf.

17. SUBSEQUENT EVENTS

a) On July 3, 2020, the Company issued 68,126 common shares pursuant to the Employee Equity Participation Plan (Note 7) for non-cash consideration at an aggregate fair value of $19,416.

b) On July 28, 2020, the Company issued 1,000,000 common shares to the seller of Labs for total consideration of $385,000 (Note 3).