



**Nextleaf Solutions Ltd.**

**Consolidated Financial Statements**

**September 30, 2020**

**(Expressed in Canadian Dollars)**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Nextleaf Solutions Ltd.

### *Opinion*

We have audited the accompanying consolidated financial statements of Nextleaf Solutions Ltd. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has incurred losses and generated negative cash flows since inception. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

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

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

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



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

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

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

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

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

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

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

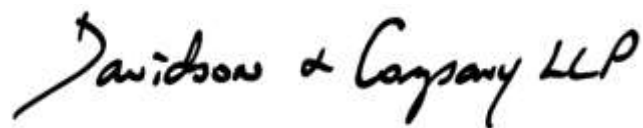
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

Vancouver, Canada

Chartered Professional Accountants

January 28, 2021

**Nextleaf Solutions Ltd.**  
**Consolidated Statements of Financial Position**  
**(Expressed in Canadian Dollars)**

**As at September 30, 2020 and September 30, 2019**

	Note	September 30, 2020 \$	(Restated - Note 2) September 30, 2019 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash		988,675	4,295,987
Receivables and prepayments	4,9	756,751	205,673
Inventory	5	941,787	-
Loans receivable - current	14	-	75,000
		<b>2,687,213</b>	<b>4,576,660</b>
<b>Non-current assets</b>			
Deposits		7,155	6,155
Property and equipment	6	5,549,138	4,017,340
Intangible assets	7	716,985	260,999
Other receivables	19	620,266	-
Loans receivable	14	200,000	511,535
Equipment deposits	6	-	338,148
		<b>7,093,544</b>	<b>5,134,177</b>
<b>Total assets</b>		<b>9,780,757</b>	<b>9,710,837</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9	2,095,445	1,026,389
Lease liability - current	6	28,991	-
		<b>2,124,436</b>	<b>1,026,389</b>
<b>Non-current liabilities</b>			
Lease liability	6	353,934	-
Government loan	15	40,000	-
		<b>393,934</b>	<b>-</b>
<b>Total liabilities</b>		<b>2,518,370</b>	<b>1,026,389</b>
<b>Shareholders' equity</b>			
Share capital	8	20,958,363	17,355,831
Reserves	8	4,012,754	3,056,486
Deficit		(17,708,730)	(11,727,869)
<b>Total shareholders' equity</b>		<b>7,262,387</b>	<b>8,684,448</b>
<b>Total liabilities and shareholders' equity</b>		<b>9,780,757</b>	<b>9,710,837</b>
Nature of operations and going concern	1		
Subsequent events	20		

Approved on behalf of the Board of Directors on January 28, 2021:

*"Paul Pedersen"*

Director

*"Charles Ackerman"*

Director

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

## Nextleaf Solutions Ltd.

### Consolidated Statements of Loss and Comprehensive Loss (Expressed in Canadian Dollars)

For the years ended September 30,

	Note	September 30, 2020 \$	(Restated - Note 2) September 30, 2019 \$
<b>Revenue</b>			
Cannabis concentrate sales		235,467	-
Licensing	16	455,217	-
		<b>690,684</b>	-
<b>Cost of sales - concentrate</b>			
		<b>(736,854)</b>	-
<b>Gross margin</b>			
		<b>(46,170)</b>	-
<b>Expenses</b>			
Administrative expenses		344,653	717,759
Amortization	7	215,358	1,106
Depreciation	6	656,618	493,406
Directors' fees	9	63,850	36,140
Finance costs	6	39,651	-
Foreign exchange (gain) loss		(162,904)	85,190
Investor relations and advertising		588,385	1,118,355
Management fees	9	469,100	732,024
Professional fees and consulting		1,449,370	1,179,260
Research, extraction and lab supplies		251,788	205,358
Share-based payments	8,9	897,568	2,796,272
Wages and salaries		1,010,116	568,829
<b>Loss from operating expenses</b>			
		<b>(5,823,553)</b>	<b>(7,933,699)</b>
(Loss) gain on disposal of equipment	6	(26,039)	50,059
Government assistance	15	438,197	269,847
Interest income	14	18,780	13,922
Listing expense	17	-	(1,414,367)
Loss on loans receivable	14	(153,780)	-
Loss provision on other receivables	19	(181,602)	-
Write-off of equipment deposits	6	(179,449)	-
		<b>(83,893)</b>	<b>(1,080,539)</b>
<b>Loss and comprehensive loss for the year</b>			
		<b>(5,953,616)</b>	<b>(9,014,238)</b>
<b>Loss per share</b>			
<b>Weighted average number of common shares outstanding:</b>			
Basic #		<b>112,664,390</b>	90,915,618
Diluted #		<b>112,664,390</b>	90,915,618
<b>Basic loss per share</b>			
		<b>(0.05)</b>	(0.10)
<b>Diluted loss per share</b>			
		<b>(0.05)</b>	(0.10)

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

**Nextleaf Solutions Ltd.**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

**For the years ended September 30,**

		September 30, 2020	(Restated - Note 2) September 30, 2019
	Note	\$	\$
<b>Operating activities</b>			
Loss for the year		(5,953,616)	(9,014,238)
Adjustments for:			
Administrative - equipment deposits	6	17,790	-
Amortization		215,358	1,106
Depreciation - cost of sales	6	237,779	-
Depreciation - operating expenses	6	656,618	493,406
Finance costs		39,651	-
Professional fees and consulting - warrants issued		24,500	-
Shares issued - research		-	200,000
Share-based payments		897,568	2,796,272
Wages and salaries - shares issued		67,585	-
Loss (gain) on disposal of equipment		26,039	(50,059)
Listing expense - non-cash portion		-	1,224,699
Write-off of due from related parties - administrative expense		-	80,770
Interest income - accrued	14	(18,780)	(11,535)
Loss provision on loans receivable		153,780	-
Loss provision on other receivables		181,602	-
Write-off of equipment deposits paid in cash		179,449	-
Write-off of equipment deposits in accounts payable and accrued liabilities		(266,930)	-
Non-cash working capital items:			
Receivables and prepayments		(375,041)	62,615
Inventory		(34,541)	-
Due from related parties		-	22,003
Deposits		(1,000)	(25,976)
Accounts payable and accrued liabilities		588,037	(58,372)
		<b>(3,364,152)</b>	<b>(4,279,309)</b>
<b>Investing activities</b>			
Funds advanced for loans receivable	14	(275,000)	(520,000)
Refund (payment) of equipment deposits, net	6	65,691	(272,444)
Purchases of property and equipment		(2,606,541)	(1,326,115)
Proceeds on disposal of equipment		-	105,300
Payments for intangible assets		(101,019)	(162,105)
Cash acquired on acquisition of Nextleaf Labs Ltd.	3	23,758	-
Transaction costs on acquisition of Nextleaf Labs Ltd.	3	(10,065)	-
Cash acquired on reverse acquisition	17	-	100,250
		<b>(2,903,176)</b>	<b>(2,075,114)</b>
<b>Financing activities</b>			
Lease payments	6	(64,131)	-
Government loan proceeds	15	40,000	-
Issuance of units/shares, net of share issue costs		2,984,147	8,957,038
Collection of subscriptions receivable		-	855,768
		<b>2,960,016</b>	<b>9,812,806</b>
<b>(Decrease) increase in cash</b>		<b>(3,307,312)</b>	<b>3,458,383</b>
<b>Cash, beginning of year</b>		<b>4,295,987</b>	<b>837,604</b>
<b>Cash, end of year</b>		<b>988,675</b>	<b>4,295,987</b>

Supplemental cash flow information

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

## Nextleaf Solutions Ltd.

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

For the years ended September 30, 2020 and September 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
<b>Reverse acquisition transaction (Note 17):</b>					
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	-	(362,700)	-	-	(362,700)
Share issue costs - finders' warrants	-	(239,682)	239,682	-	-
Exercise of warrants	195,680	68,488	-	-	68,488
Re-allocated on exercise of warrants	-	26,338	(26,338)	-	-
Exercise of options	260,713	91,250	-	-	91,250
Re-allocated on exercise of options	-	45,930	(45,930)	-	-
Shares issued - research	444,444	200,000	-	-	200,000
Shares issued - intangible assets	196,078	100,000	-	-	100,000
Share-based payments	-	-	2,796,272	-	2,796,272
Loss and comprehensive loss for the year	-	-	-	(9,014,238)	(9,014,238)
<b>September 30, 2019 (Restated - Note 2)</b>	<b>108,123,044</b>	<b>17,355,831</b>	<b>3,056,486</b>	<b>(11,727,869)</b>	<b>8,684,448</b>
October 1, 2019, as previously reported (Restated - Note 2)	108,123,044	17,355,831	3,056,486	(11,727,869)	8,684,448
Impact of change in accounting policy - IFRS 16 (Note 2)	-	-	-	(27,245)	(27,245)
<b>October 1, 2019, adjusted balance</b>	<b>108,123,044</b>	<b>17,355,831</b>	<b>3,056,486</b>	<b>(11,755,114)</b>	<b>8,657,203</b>
Private placement units issued	10,200,738	3,060,221	-	-	3,060,221
Share issue costs - cash	-	(76,074)	-	-	(76,074)
Share issue costs - finders' warrants	-	(34,200)	34,200	-	-
Shares issued - acquisition of Nextleaf Labs Ltd. (Note 3)	1,000,000	285,000	-	-	285,000
Shares issued - intangible assets (Note 7)	937,500	300,000	-	-	300,000
Shares issued - Employee Equity Participation Plan	244,444	67,585	-	-	67,585
Warrants issued - debt settlement	-	-	24,500	-	24,500
Share-based payments	-	-	897,568	-	897,568
Loss and comprehensive loss for the year	-	-	-	(5,953,616)	(5,953,616)
<b>September 30, 2020</b>	<b>120,505,726</b>	<b>20,958,363</b>	<b>4,012,754</b>	<b>(17,708,730)</b>	<b>7,262,387</b>

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



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## Nextleaf Solutions Ltd.

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

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For the years ended September 30, 2020 and September 30, 2019

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#### 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 (“IP”) portfolio, which includes several issued and pending patents (Note 7). The Company commercializes its intellectual property portfolio through IP licensing, and production (toll processing services, and bulk sales) of CBD and THC oils through its wholly-owned subsidiary, Nextleaf Labs Ltd. (“Labs”).

On July 29, 2020, the Company completed the acquisition of Labs (Note 3). Labs is the owner of the Company’s Standard Processing Licence, and Cannabis Research Licence as issued by Health Canada on September 9, 2019.

On March 14, 2019, Legion acquired all 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 17). These 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. The Government continues to update its COVID-19 relief programs, which may qualify the Company for additional assistance. As at September 30, 2020, the Company has qualified for and accrued or received a \$40,000 loan from the Government of Canada, and wage subsidies of \$381,059 (Note 15).

These 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 September 30, 2020, the Company had working capital of \$562,777. 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, generating profitable and cash flow positive commercial operations, and continuing to obtain financing on acceptable terms. These conditions may cast significant doubt about the Company’s ability to continue as a going concern.

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## Nextleaf Solutions Ltd.

### Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

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For the years ended September 30, 2020 and September 30, 2019

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## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

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

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 subsidiaries as follows:

Nextleaf Solutions Ltd. (formerly Legion Metals Corp.)	100%	Legal parent company
Nextleaf Innovations Ltd. (formerly Nextleaf Solutions Ltd.)	100%	Extraction solutions company
Nextleaf Labs Ltd.	100%	Licenced processor (Note 3)

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

These financial statements account for Legion as a controlled entity (accounting acquiree) requiring consolidation since the date of the RTO (Notes 1, 17), effective March 14, 2019.

### Change in accounting policy

The Company has restated its consolidated financial statements as at and for the year ended September 30, 2019. Specifically, the statements of financial position, loss and comprehensive loss, cash flows, and changes in shareholders' equity have been restated to reflect the adoption of a voluntary change in accounting policy.

During the year ended September 30, 2020 (effective July 1, 2020), the Company adopted a voluntary change in accounting policy with respect to intangible assets and the recognition of application costs associated with patent filings as capitalized intangible assets. Previously, the Company capitalized costs relating to both the application and issuance of patents.

The Company's new policy on accounting for intangible assets is to expense all legal application costs (to professional fees and consulting) and capitalize only those costs related to patent filing fees.

The Company has determined that the voluntary change in accounting policy results in financial statements providing more reliable and more relevant information. The change in accounting policy is consistent with the accounting conceptual framework for the recognition of assets. This change in accounting policy has been applied to all the Company's issued and pending patents.

As required by IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, the change in accounting policy has been made retrospectively and comparatives have been restated accordingly for the annual periods presented, as if the policy had always been applied. Notably, the Company first applied its former intangible asset policy during the year ended September 30, 2019, resulting in the initial recognition of intangible assets during the three months ended September 30, 2019. Accordingly, there is no impact on the financial statements as at and for the year ended September 30, 2018, resulting from the new accounting policy.

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The financial statement impact of the voluntary change in accounting policy as at and for the year ended September 30, 2019 is as follows:

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	As previously reported \$	Effect of change in accounting policy \$	As restated \$
<b>Consolidated statement of financial position</b>			
Intangible assets	529,602	(268,603)	260,999
Total assets	9,979,440	(268,603)	9,710,837
Deficit	(11,459,266)	(268,603)	(11,727,869)
Total equity	8,953,051	(268,603)	8,684,448
Total liabilities and equity	9,979,440	(268,603)	9,710,837

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	As previously reported \$	Effect of change in accounting policy \$	As restated \$
<b>Consolidated statement of loss and comprehensive loss</b>			
Professional fees and consulting	1,110,657	68,603	1,179,260
Research, extraction and lab supplies	5,358	200,000	205,358
Loss and comprehensive loss for the year	(8,745,635)	(268,603)	(9,014,238)
Basic and diluted loss per common share	(0.10)	(0.00)	(0.10)

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	As previously reported \$	Effect of change in accounting policy \$	As restated \$
<b>Consolidated statement of cash flows</b>			
Loss and comprehensive loss for the year	(8,745,635)	(268,603)	(9,014,238)
Operating activities	(4,235,311)	(43,998)	(4,279,309)
Payments for intangible assets	(206,103)	43,998	(162,105)
Investing activities	(2,119,112)	43,998	(2,075,114)

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## Nextleaf Solutions Ltd.

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

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For the years ended September 30, 2020 and September 30, 2019

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Revenue recognition

Revenue is comprised of (i) cannabis concentrate sales (toll processing services and sales of cannabis distillates and oil; and (ii) intellectual property licensing.

##### Cannabis concentrate sales revenue:

Cannabis concentrate sales revenue earned under fee for service agreements, is recognized at a point in time when the Company is considered to have satisfied its performance obligations. The performance obligations are considered satisfied once all of the following have been met: (i) the manufacturing process (services) are complete; (ii) regulatory quality assurance, and customer quality assurance specifications (acceptance of the finished goods) have been met; and (iii) when the transaction price can be reliably measured in instances of variable consideration or non-monetary consideration.

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

Revenues are recorded net of discounts but inclusive of freight in the sale of goods. Once the customer has accepted the finished goods, the Company has no obligations for returns, refunds, warranties or similar obligations.

##### Licensing revenue:

Licensing revenue is a royalty arrangement (Note 16) whereby the Company recognizes revenue from the licensing of its intellectual property in the manufacture and sale of extraction hardware by a third party (the "Licencee"). The Company recognizes revenue as a percentage of the Licencee's revenue when the Licencee sells and delivers extraction hardware to its customers.

##### Inventory

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

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

##### Acquisitions

An acquisition of an asset or a group of assets that does not constitute a business is accounted for using the acquisition method. The cost of acquisitions is measured on the date of purchase which is when the consideration is transferred, and includes the aggregate fair values of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Company. The Company identifies and recognizes the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Asset acquisitions do not give rise to goodwill. Directly attributable transaction costs are capitalized in an asset acquisition as incurred.

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## Nextleaf Solutions Ltd.

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

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For the years ended September 30, 2020 and September 30, 2019

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#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### New accounting standards adopted during the year

###### 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 \$380,160 and a lease liability of \$407,405 were recognized as at October 1, 2019 (Note 6), in accordance with the modified retrospective approach, which resulted in an aggregate \$27,245 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 6 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.

##### Standards issued but not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2021. The Company has reviewed these updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant accounting judgments, estimates and assumptions**

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

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

*Fair value of stock options and finders' warrants*

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

*Useful lives of property and equipment and intangible assets*

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

*Collectability of financial assets*

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

*Non-monetary transactions*

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

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Significant accounting judgments, estimates and assumptions (continued)**

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

*Income taxes*

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

*Going concern*

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

*Commencement of depreciation and amortization of property and equipment and intangible assets*

Judgment is used to determine the commencement date of depreciation/amortization of an item of property and equipment/intangible assets. The commencement date is when an item is available for use in the location and condition as intended by management.

*Acquisitions*

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition.

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Property and equipment**

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

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

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

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

**Government assistance**

Government assistance consisting of investment tax credits (including SR&ED (Note 15)), and relief payments pursuant to Government programs are recorded separately within profit or loss when they relate to an item(s) of expense. Amounts are recognized when the grant is received, or when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

**Research and development costs**

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

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

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



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

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**For the years ended September 30, 2020 and September 30, 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Intangible assets**

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

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

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

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

- Patents (20 years);
- Nano emulsion technology (water-soluble cannabinoid formulations) (2 years); and
- Licences (Over the term of the facility lease).

**Impairment of non-financial assets**

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

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

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

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Share capital**

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

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

**Share-based payment transactions**

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

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

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

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

**Loss per share**

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

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

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****Income taxes**

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

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

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

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

**Financial instruments**

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

Recognition

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

Classification

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

Impairment of financial assets

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

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

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

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**3. SHARE PURCHASE AGREEMENT**

On July 29, 2020, the Company acquired all the issued and outstanding common shares of Nextleaf Labs Ltd. ("Labs") (Note 1). Labs was a private holding company formerly owned by an employee of the Company and incorporated in the province of British Columbia for the purpose of facilitating the Company's application process for a Standard Processing Licence. This Licence was issued to Labs by Health Canada on September 9, 2019. Additionally, Health Canada granted Labs a Cannabis Research Licence on January 22, 2020.

The acquisition of Labs was pursuant to a Share Purchase Agreement entered between the Company and Labs on October 11, 2019. On closing, the Company issued 1,000,000 common shares of the Company to the seller of Labs for total consideration of \$285,000 (\$0.285 per share). Labs' identifiable assets consisted of cash, receivables, and the Licenses. Consideration was allocated based on the relative fair values of the identifiable assets acquired.

The acquisition of Labs has been 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.

	<b>July 29, 2020</b>
<b>Assets of Labs acquired:</b>	<b>\$</b>
Cash	23,758
Receivables	982
Intangible assets	270,325
<b>Net assets acquired</b>	<b>295,065</b>
<b>Consideration paid in acquisition of Labs:</b>	<b>\$</b>
Common shares (fair value of 1,000,000 common shares at \$0.285 per share)	285,000
Transaction costs	10,065
<b>Total consideration paid</b>	<b>295,065</b>

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**4. RECEIVABLES AND PREPAYMENTS**

Receivables and prepayments comprise the following:

	<b>September 30, 2020</b>	September 30, 2019
	<b>\$</b>	<b>\$</b>
Accrued receivables	175,055	-
CEWS receivable (Note 15)	68,160	-
Prepaid expenses	150,617	162,201
Sales tax recoverable	88,079	43,472
Trade receivables	274,840	-
	<b>756,751</b>	<b>205,673</b>

Accrued receivables represents the amount collectible from the party that purchased the Company's mobile trailer (Note 6), as well as a refund of former equipment deposits. Both amounts were collected subsequent to September 30, 2020.

**5. INVENTORY**

Inventory is comprised of the following:

	<b>September 30, 2020</b>	September 30, 2019
	<b>\$</b>	<b>\$</b>
Raw materials	905,773	-
Production work in progress - distillate	36,014	-
	<b>941,787</b>	<b>-</b>

Inventory expensed to cost of sales during the year ended September 30, 2020, totaled \$93,164 (2019 - \$nil). Additionally, the Company recognized a provision against inventory within cost of sales totaling \$99,894 during the year then ended relating to unsaleable finished goods.

# Nextleaf Solutions Ltd.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2020 and September 30, 2019

### 6. PROPERTY AND EQUIPMENT

	Extraction equipment \$	Leasehold improvements \$	Right-of-use asset \$	Furniture and equipment \$	Mobile trailer \$	Total \$
<b>Cost</b>						
September 30, 2018	2,517,262	426,238	-	182,617	257,173	3,383,290
Additions	1,000,303	655,740	-	5,000	-	1,661,043
Disposal	(64,990)	-	-	-	-	(64,990)
September 30, 2019	3,452,575	1,081,978	-	187,617	257,173	4,979,343
<b>Accumulated depreciation</b>						
September 30, 2018	420,319	-	-	10,667	47,360	478,346
Depreciation	411,172	4,880	-	35,390	41,964	493,406
Disposal	(9,749)	-	-	-	-	(9,749)
September 30, 2019	821,742	4,880	-	46,057	89,324	962,003
<b>Cost</b>						
September 30, 2019	3,452,575	1,081,978	-	187,617	257,173	4,979,343
Adoption of IFRS 16 (Note 2)	-	-	380,160	-	-	380,160
Additions	894,446	2,036,769	-	16,259	-	2,947,474
Transfer to equipment deposits	(707,437)	-	-	-	-	(707,437)
Disposals	-	(58,637)	-	-	(257,173)	(315,810)
September 30, 2020	3,639,584	3,060,110	380,160	203,876	-	7,283,730
<b>Accumulated depreciation</b>						
September 30, 2019	821,742	4,880	-	46,057	89,324	962,003
Depreciation (1)	538,459	250,556	43,416	29,869	33,570	895,870
Disposals	-	(387)	-	-	(122,894)	(123,281)
September 30, 2020	1,360,201	255,049	43,416	75,926	-	1,734,592
<b>Net book value</b>						
September 30, 2019	2,630,833	1,077,098	-	141,560	167,849	4,017,340
September 30, 2020	2,279,383	2,805,061	336,744	127,950	-	5,549,138

Depreciation for the years ended September 30, 2020 and September 30, 2019, is allocated as follows:

	September 30, 2020 \$	September 30, 2019 \$
Cost of sales	237,779	-
Inventory	1,473	-
Operating expenses	656,618	493,406
	<b>895,870</b>	<b>493,406</b>

During the year ended September 30, 2020, the Company disposed of its mobile trailer for cash consideration of \$108,240 (\$81,000 USD). The mobile trailer had a net book value of \$134,279 at the time of disposal and therefore a loss on disposal of equipment was recognized for \$26,039. The cash proceeds were collected in full subsequent to September 30, 2020 and were included in receivables (accrued receivables) as at September 30, 2020.

During the year ended September 30, 2019, the Company disposed of certain extraction equipment for cash consideration of \$105,300. The equipment had a net book value of \$55,241 at the time of disposal and therefore a gain on disposal of equipment was recognized for \$50,059.

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**6. PROPERTY AND EQUIPMENT** (continued)

A continuity of equipment deposits are as follows:

	<b>September 30, 2020</b>	September 30,
	<b>\$</b>	2019
		<b>\$</b>
Balance, beginning of year	338,148	65,704
Deposits paid	-	328,444
Deposits refunded (received)	(65,690)	(56,000)
Deposits refunded (receivable)	(66,815)	-
Expensed to administrative, net of credit memo	(17,791)	-
Termination of purchase agreement, net	266,930	-
Write-off of equipment deposits	(179,449)	-
Reclassified to other receivables (Note 19)	(275,333)	-
<b>Balance, end of year</b>	<b>-</b>	<b>338,148</b>

**Right-of-use asset and Lease liability:**

The Company has an agreement to lease its Licenced processing facility and corporate office lease in Coquitlam, BC. The Company has determined that its lease contract is a lease as defined under IFRS 16 – Leases (“IFRS 16”). In analyzing the identified contract, the Company applied the lessee accounting model pursuant to IFRS 16 and considered all the facts and circumstances surrounding the inception of the contract (but not future events that are not likely to occur). The lease liability was calculated with a discount rate of 10%. The lease is for the period from July 1, 2018 to June 30, 2023 with a five-year extension option through to June 30, 2028. The five-year extension option was included in the measurement of the right-of-use asset and lease liability on initial recognition.

As at September 30, 2020, the remaining term of the Company's facility lease was 7.75 years which includes the five-year extension option.

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**6. PROPERTY AND EQUIPMENT** (continued)**Right-of-use asset and Lease liability:** (continued)

A reconciliation of the carrying amount of the lease liability as at September 30, 2020 and changes during the year then ended is as follows:

	<b>September 30, 2020</b>
	<b>\$</b>
October 1, 2019 (Note 2)	407,405
Lease payments	(64,131)
Lease interest (finance costs)	39,651
<b>September 30, 2020</b>	<b>382,925</b>
<b>Current portion of lease liability</b>	<b>28,991</b>
<b>Non-current portion of lease liability</b>	<b>353,934</b>
	<b>382,925</b>
<b>Maturity analysis - contractual undiscounted cash flows</b>	
Less than one year	66,012
One to five years	284,544
Over five years	209,220
	<b>559,776</b>

During the year ended September 30, 2020, the Company incurred \$32,107 in variable lease payments within rent expense that were not included within the measurement of the lease liability.

Short-term leases are leases with a lease term of twelve months or less. As at September 30, 2020, the Company did not have any low value leases or short-term leases.



## Nextleaf Solutions Ltd.

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

For the years ended September 30, 2020 and September 30, 2019

#### 7. INTANGIBLE ASSETS

During the year ended September 30, 2020 (effective July 1, 2020), the Company adopted a voluntary change in accounting policy with respect to intangible assets and the recognition of application costs associated with patent filings as capitalized intangible assets (Note 2). Previously, the Company capitalized costs relating to both the application and issuance of patents. The Company's new policy for intangible assets is to expense legal application costs and capitalize only those costs related to filing fees of patents as development costs (patents issued).

	Nano emulsion technology \$	(Restated - Note 2) Issued patents \$	Licences (Note 3) \$	Total \$
<b>Cost</b>				
September 30, 2018	-	-	-	-
Additions	252,550	9,555	-	262,105
September 30, 2019 (Restated - Note 2)	252,550	9,555	-	262,105
<b>Accumulated amortization</b>				
September 30, 2018	-	-	-	-
Amortization	-	1,106	-	1,106
September 30, 2019	-	1,106	-	1,106
<b>Cost</b>				
September 30, 2019 (Restated - Note 2)	252,550	9,555	-	262,105
Additions	373,450	27,569	270,325	671,344
<b>September 30, 2020</b>	<b>626,000</b>	<b>37,124</b>	<b>270,325</b>	<b>933,449</b>
<b>Accumulated amortization</b>				
September 30, 2019	-	1,106	-	1,106
Amortization	207,523	1,857	5,978	215,358
<b>September 30, 2020</b>	<b>207,523</b>	<b>2,963</b>	<b>5,978</b>	<b>216,464</b>
<b>Net book value</b>				
September 30, 2019 (Restated - Note 2)	252,550	8,449	-	260,999
<b>September 30, 2020</b>	<b>418,477</b>	<b>34,161</b>	<b>264,347</b>	<b>716,985</b>

#### Nano emulsion technology

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 ("nano emulsion technology") for the Company that can be sold by the Company to beverage producers to produce cannabinoid-infused 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, plus non-recoverable sales taxes);
- \$100,000 in cash (paid, plus 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, plus non-recoverable sales taxes), and common shares with an aggregate fair value of \$300,000 (issued 937,500 common shares at a fair value of \$0.32 each).

Amortization on the nano emulsion technology commenced in February 2020 upon the Company making the final payment to acquire the formulations which is when the formulations became available for use by the Company.

#### Licences

During the year ended September 30, 2020, the Company acquired a Standard Processing Licence, and a Cannabis Research Licence through the acquisition of Labs (Note 3). The Licences are being amortized over the term of the facility lease.

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## Nextleaf Solutions Ltd.

### Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

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For the years ended September 30, 2020 and September 30, 2019

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#### 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 year ended September 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 the nano emulsion technology (Note 7).
- From April through to September 2020, the Company issued 244,444 common shares pursuant to the Employee Equity Participation Plan (details below) for non-cash consideration at an aggregate fair value of \$67,585. The common shares were issued in lieu of salaries and the fair value was recorded as wages and salaries 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. Related parties and insiders subscribed to the private placement for a total of 256,667 units for gross proceeds of \$77,000.

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.

- On July 29, 2020, the Company issued 1,000,000 common shares with an aggregate fair value of \$285,000 (\$0.285 per share) for the acquisition of Nextleaf Labs Ltd. (Note 3).

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## Nextleaf Solutions Ltd.

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

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For the years ended September 30, 2020 and September 30, 2019

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#### 8. SHAREHOLDERS' EQUITY (continued)

##### Transactions for the issue of share capital during the year ended September 30, 2019:

- In conjunction with the closing of the RTO (Notes 1 and 17), 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. The residual value of the warrants attached to the private placement units was determined to be \$nil.

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 were included as part of consideration paid on closing of the RTO (Note 17).

Additionally, the Company paid \$242,250, 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 at a price of \$0.40 per unit 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 \$134,382. The finders' warrants are exercisable at \$0.40 per share until May 15, 2021.

- The Company issued 195,680 common shares on the exercise of warrants for proceeds of \$68,488. In addition, \$26,338 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 with an aggregate fair value of \$200,000 (\$0.45 per share) to an arm's length party for the acquisition of a U.S. patent pending hydrocarbon extraction process, known as "shatter." The amount was expensed within research, extraction and lab supplies (pursuant to the change in significant accounting policy – Note 2).
- The Company issued 196,078 common shares at a fair value of \$100,000 (\$0.51 each) for the acquisition of cannabinoid formulations (Note 7).

##### 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. Additionally, there are 750,000 common shares held in escrow pursuant to the acquisition of Labs which occurred on July 29, 2020.

As at September 30, 2020, 16,852,978 common shares were held in escrow (September 30, 2019 – 27,132,081).

##### 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 year ended September 30, 2020, a total of 244,444 common shares of the Company have been issued to non-executive employees under the Plan.

# Nextleaf Solutions Ltd.

## Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2020 and September 30, 2019

### 8. SHAREHOLDERS' EQUITY (continued)

#### Shareholder Rights Plan

On July 23, 2019, the Company adopted a Shareholder Rights Plan (the "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.

#### Stock options

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

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

	Year ended September 30, 2020		Year ended September 30, 2019	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of 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
<b>Options outstanding, end of year</b>	<b>14,439,287</b>	<b>0.36</b>	<b>13,989,287</b>	<b>0.35</b>

As at September 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	1.58
(1)	13,725,000	13,400,000	0.35	March 15, 2024	3.46
	150,000	150,000	0.50	July 8, 2024	3.77
	300,000	-	0.50	October 15, 2024	4.04
	150,000	-	0.50	October 16, 2024	4.05
	<b>14,439,287</b>	<b>13,664,287</b>	<b>0.36</b>		<b>3.46</b>

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

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

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**For the years ended September 30, 2020 and September 30, 2019**

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

During the year ended September 30, 2020, the Company granted an aggregate 450,000 stock options to an employee, and a Director of the Company.

During the year ended September 30, 2019, 14,050,000 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 Licence (completed, which triggered the vesting of 26% of these vested); and Milestone 2 – Obtaining a Health Canada Standard Processing Licence (completed, which triggered the vesting of 74% of these 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.

Additionally, during the year ended September 30, 2019, the Company issued 200,000 replacement stock options (Note 17) in connection with the RTO (the "RTO Replacement Options").

The Company recorded the fair value of the 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. The fair values were determined using the following weighted average assumptions:

	<b>September 30, 2020</b>	September 30, 2019
Risk-free interest rate	1.57%	2.07%
Expected life of options (years)	5.00	4.52
Expected volatility	100%	100%
Dividend rate	0%	0%

Total share-based payment expense for the year ended September 30, 2020 was \$897,568 (2019 - \$2,796,272), which includes stock options that vested during the year then ended. The fair value of the RTO Replacement Options assumed during the year ended September 30, 2019, amounted to \$44,300 and is included within consideration paid in RTO of Legion (Note 17).

## Nextleaf Solutions Ltd.

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

For the years ended September 30, 2020 and September 30, 2019

#### 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 September 30, 2020 and September 30, 2019 and changes during the years then ended is as follows:

	Year ended September 30, 2020		Year ended September 30, 2019	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of 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
<b>Warrants outstanding, end of year</b>	<b>36,116,850</b>	<b>0.63</b>	<b>25,470,305</b>	<b>0.69</b>

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

Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
14,285,711	0.70	March 14, 2021	0.45
485,969	0.35	March 21, 2021	0.47
298,625	0.40	May 15, 2021	0.62
10,400,000	0.70	May 15, 2021	0.62
250,000	0.40	November 28, 2021	1.16
6,666,667	0.50	May 21, 2022	1.64
66,933	0.30	May 21, 2022	1.64
3,534,071	0.50	May 28, 2022	1.66
128,874	0.30	May 28, 2022	1.66
<b>36,116,850</b>	<b>0.63</b>		<b>0.85</b>

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

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**For the years ended September 30, 2020 and September 30, 2019**

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

In addition to the warrants issued in connection with financings as described above during the year ended September 30, 2020, the Company issued 250,000 warrants with an exercise price of \$0.40 expiring on November 28, 2021, as consideration for consulting services provided by an arm's length vendor.

During the year ended September 30, 2019, the Company issued 112,203 replacement finders' warrants (Note 17) 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, debt settlement 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. The fair values were determined using the following weighted average assumptions:

	September 30, 2020	September 30, 2019
Risk-free interest rate	0.30%	1.90%
Expected life of options (years)	1.33	1.83
Expected volatility	100%	100%
Dividend rate	0%	0%

**Reserves**

Reserves are 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 are increased by the fair value of these items on vesting/issuance and are reduced by corresponding amounts when stock options or warrants expire or are exercised or cancelled.

	Stock options \$	Warrants \$	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	-	239,682	239,682
Re-allocated on exercise of warrants	-	(26,338)	(26,338)
Re-allocated on exercise of options	(45,930)	-	(45,930)
Options vesting	2,796,272	-	2,796,272
September 30, 2019	2,794,642	261,844	3,056,486
September 30, 2019	2,794,642	261,844	3,056,486
Finders' warrants issued	-	34,200	34,200
Warrants issued - debt settlement	-	24,500	24,500
Options vesting	897,568	-	897,568
<b>September 30, 2020</b>	<b>3,692,210</b>	<b>320,544</b>	<b>4,012,754</b>

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**9. RELATED PARTY TRANSACTIONS**

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

**Key management personnel compensation**

The remuneration of key management for the years ended September 30, 2020 and September 30, 2019 is as follows:

	<b>September 30, 2020</b>	September 30, 2019
	\$	\$
Directors' fees	63,850	36,140
Management fees	469,100	732,024
Share-based payments	546,342	1,943,783
	<b>1,079,292</b>	<b>2,711,947</b>

**Related party balances**

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

	<b>September 30, 2020</b>	September 30, 2019
	\$	\$
Balances included in accounts payable and accrued liabilities:		
Accounts payable - management fees	206,251	50,345
Accrued liabilities - Directors' fees	36,000	-
Balances included in receivables and prepayments:		
Prepaid management fees	38,900	60,000
Expense advances	-	8,573

During the year ended September 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.



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## Nextleaf Solutions Ltd.

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

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For the years ended September 30, 2020 and September 30, 2019

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#### 10. FINANCIAL INSTRUMENTS

##### Fair value

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

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

##### Classification of financial instruments

<b>Financial assets:</b>	<b>Classification:</b>	<b>Subsequent measurement:</b>
Cash	FVTPL	Fair value
Accrued receivables	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Loans receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost

<b>Financial liabilities:</b>	<b>Classification:</b>	<b>Subsequent measurement:</b>
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Lease liability	Other financial liabilities	Amortized cost
Government loan	Other financial liabilities	Amortized cost

The Company's financial instruments other than 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.

##### Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. During the year ended September 30, 2020, the Company's cannabis concentrate sales (sale of bulk distillate) was generated from one customer, and the Company's licensing revenue was generated from a single customer.

##### Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. As at September 30, 2020, credit risk for the Company arises from cash, accrued receivables, CEWS receivable, trade receivables, other receivables, loans receivable, and deposits. The carrying amount of these financial assets represents the maximum credit exposure as at September 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 September 30, 2020, the Company's trade receivables were due from two customers. Additionally, accrued receivables were due from two parties (one of which in common with trade receivables). Management considers the credit risk to be low with respect to CEWS receivable as it is a relief payment from the Government of Canada and was received subsequent to September 30, 2020. The Company's trade receivables are current, and management considers the credit risk to be low. The Company's accrued receivables were collected subsequent to September 30, 2020.

Credit risk relating to other receivables is considered moderate since these balances are subject to collection action taken by the Company against the party that these amounts are due from. The Company has assessed the likelihood of collecting the amounts included in other receivables and has applied a 20% loss provision to the balances resulting in the recognition of a loss provision during the year ended September 30, 2020, of \$181,602 (Note 19). See additional details below ("Impairment of financial assets").

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**10. FINANCIAL INSTRUMENTS** (continued)Impairment of financial assets

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

- Accrued receivables;
- Trade receivables;
- Other receivables;
- Loans receivable; and
- Deposits.

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

The Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for its accrued, trade, and other receivables, and deposit. 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, accrued receivables, trade receivables, deposit, and loans receivable are grouped by debtor, and each debtor's circumstances are reviewed. The expected loss amount, if any, is based on historical payment profiles, and the corresponding historical credit losses experienced within this period for the debtors.

As at September 30, 2020, the loss allowance was \$nil for accrued receivables, trade receivables, and deposits. There has been no historical loss allowance recorded on these items. As described above, the Company recognized an aggregate loss provision of \$181,602 on loans receivable (further detailed in Note 19).

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

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

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

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**For the years ended September 30, 2020 and September 30, 2019**

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

The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company has been successful in raising equity financing in the past; however, there is no assurance that it will be able to do so in the future. As at September 30, 2020, the Company had working capital of \$562,777, 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 September 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 \$4,300 (2019 - \$57,100).

**(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.

**11. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	September 30, 2020 \$	(Restated - Note 2) September 30, 2019 \$
Non-cash investing activities:		
Purchases of property and equipment in accounts payable and accrued liabilities	339,216	763,970
Recognition of right-of-use asset in property and equipment	380,160	-
Refund of equipment deposits in receivables	66,815	-
Proceeds on disposal of equipment included in receivables	108,240	-
Fair value of common shares issued for acquisition of intangible asset	300,000	100,000
Fair value of common shares issued for acquisition of Nextleaf Labs Ltd.	285,000	-
Non-cash financing activities:		
Fair value of finders' warrants/units issued	34,200	239,682

During the years ended September 30, 2020 and September 30, 2019, no amounts were paid for interest or income tax expenses.

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## Nextleaf Solutions Ltd.

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

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For the years ended September 30, 2020 and September 30, 2019

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#### 12. CAPITAL RISK MANAGEMENT

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

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

There were no changes in the Company's approach to capital management during the year ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

#### 13. SEGMENTED INFORMATION

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

#### 14. LOANS RECEIVABLE

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

	September 30, 2020 \$	September 30, 2019 \$
Balance, beginning of year	586,535	55,000
Advances	275,000	520,000
Interest accrual (interest income)	18,780	11,535
Loss on forgiveness of loan (Nextleaf Labs Ltd.) (Note 3)	(153,780)	-
Reclassification to Other receivables (Note 19)	(526,535)	-
<b>Balance, end of year</b>	<b>200,000</b>	<b>586,535</b>
<b>Current portion</b>	<b>-</b>	<b>75,000</b>
<b>Non-current portion</b>	<b>200,000</b>	<b>511,535</b>

##### *Promissory note – equipment supplier:*

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 September 30, 2020, the Company was owed \$526,535 (comprising \$500,000 principal, and \$26,535 accrued interest receivable). The promissory note was reclassified to Other receivables (Note 19).

As at September 30, 2019, the Company was owed \$511,535 (comprising \$500,000, and \$11,535 accrued interest receivable).

##### *Promissory note – Labs:*

During the year ended September 30, 2019, the Company advanced \$75,000 to the sole shareholder of Labs. During the year ended September 30, 2020, the Company advanced an additional \$75,000 to the sole shareholder. The amounts were advanced by the shareholder to Labs and used as the initial working capital of Labs. The loan bore interest at 5% per annum. Immediately preceding closing of the acquisition of Labs (Note 3), the aggregate principal and accrued interest of \$153,780 was forgiven.

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## Nextleaf Solutions Ltd.

### Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

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For the years ended September 30, 2020 and September 30, 2019

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#### 14. LOANS RECEIVABLE (continued)

*Loan receivable – Licencee (Note 16):*

During the year ended September 30, 2020, the Company provided \$200,000 as a working capital advance to the Licencee further described in Note 16 in connection with the underlying Royalty Agreement. The advance is non-interest bearing and must be repaid if the Royalty Agreement is terminated within five years of its effective date. As at September 30, 2020, the Company was owed \$200,000 which is classified as non-current.

#### 15. GOVERNMENT ASSISTANCE

During the year ended September 30, 2020, the Company accrued or received \$438,197 in government assistance proceeds comprising the Canada Emergency Wage Subsidy (“CEWS”), and Scientific Research and Experimental Development (“SR&ED”) programs as detailed below and presented in profit or loss. Amounts recognized as government assistance during the year ended September 30, 2019, related to SR&ED and NRC-IRAP (as defined below).

##### Canada Emergency Wage Subsidy (“CEWS”)

During the year ended September 30, 2020, the Company determined the impact on the Company’s ability to generate revenue because of the COVID-19 pandemic, qualified the Company to apply for CEWS provided by the Government of Canada. As a result, the Company has accrued or received wages and salaries subsidies of \$381,059 (2019 - \$nil) within government assistance income.

##### 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 year ended September 30, 2020, the Company filed and received approval of its SR&ED refund application for its fiscal 2019 expenditures. Accordingly, the Company received a refund of \$57,138 (2019 - \$195,366 relating to its fiscal 2018 expenditures) which is presented as government assistance.

##### Canadian Emergency Business Account (“CEBA”)

During the year ended September 30, 2020, the Company qualified for a government-guaranteed line of credit (government loan) of \$40,000 which was interest-free until December 31, 2020. On January 1, 2021, the line of credit converted to a 2-year, 0% interest term loan to be repaid by December 31, 2022 at which time a 25% balance forgiveness (\$10,000) will apply if the loan is repaid by such date. The Company has the option to exercise a 3-year term extension on the loan by December 31, 2022, if the loan is not repaid by then. At which time, the remaining unpaid balance of the loan will bear interest at 5% interest per annum during the extension period and must be paid in full by December 31, 2025. Funds can be used to pay non-deferrable operating expenses including payroll.

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

The Company entered into a Contribution Agreement with the NRC-IRAP to receive a grant 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 September 30, 2020, there was no agreement in effect and therefore no amounts accrued.

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## Nextleaf Solutions Ltd.

### Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

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For the years ended September 30, 2020 and September 30, 2019

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#### 16. LICENSING REVENUE

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

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

#### 17. 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.

	<b>March 14, 2019</b>
<b>Net assets of Legion acquired:</b>	<b>\$</b>
Cash	100,250
Receivables	6,811
<b>Net assets acquired</b>	<b>107,061</b>
<b>Consideration paid in RTO of Legion:</b>	<b>\$</b>
Common shares (fair value of 3,647,029 common shares at \$0.35 per share)	1,276,460
Replacement warrants (Note 8)	11,000
Replacement options (Note 8)	44,300
Transaction costs - cash	189,668
<b>Total consideration paid</b>	<b>1,521,428</b>
<b>Listing expense</b>	<b>1,414,367</b>

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.

## Nextleaf Solutions Ltd.

### Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2020 and September 30, 2019

#### 18. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended September 30, 2020, and September 30, 2019, is as follows:

	2020	(Restated - Note 2) 2019
	\$	\$
Loss for the year	(5,953,616)	(9,014,238)
Expected income tax (recovery)	(1,607,000)	(2,434,000)
Change in tax resulting from:		
Permanent differences	271,000	1,116,000
Change in recognized deductible temporary differences and other	1,533,000	1,304,000
Share issue cost	(21,000)	(98,000)
Adjustment to prior year provision versus statutory tax returns	(176,000)	112,000
Total income tax expense (recovery)	-	-

The Company's unused temporary differences, and unused tax losses that have not been included on the statements of financial position as at September 30, 2020, and September 30, 2019, are as follows:

	2020	Expiry Date	(Restated - Note 2) 2019	Expiry Date
	\$	Range	\$	Range
Equipment	2,784,000	No expiry	1,302,000	No expiry
Share issue costs	165,000	2040 to 2044	439,000	2039 to 2043
Provision on receivable	155,000	No expiry	-	No expiry
Intangible assets	(46,000)	No expiry	-	No expiry
Available capital losses	77,000	No expiry	3,000	No expiry
Non-capital loss carry forwards	10,571,000	2037 to 2040	6,772,000	2037 to 2039

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

#### 19. OTHER RECEIVABLES

As at September 30, 2020, the Company was owed an aggregate \$801,868 from an equipment supplier relating to amounts advanced by the Company as a promissory note ("loan") totaling \$526,535 including principal and accrued interest (Note 14) and amounts advanced as deposits for cannabis extraction equipment totaling \$275,333 (Note 6).

To the date of these financial statements, the Company and the equipment supplier are negotiating terms for the repayment to the Company of principal and interest on the loan, and the refund of equipment deposits. On December 9, 2020, the Company issued the equipment supplier a Demand Notice requesting repayment of the equipment deposit and loan in full by December 17, 2020 (not paid). As the equipment supplier did not make the payment by the imposed deadline, the Company is proceeding with commencing legal action as of the date of these financial statements.

Given the uncertainty surrounding repayment by the equipment supplier, the Company recognized a loss provision on the principal and interest of the loan, and the equipment deposit. The provision includes a 100% write-off of accrued interest on the loan, and a 20% provision on the loan principal and the equipment deposit, as detailed in the table below.

Other receivables comprise the following:

	September 30, 2020	September 30, 2019
	\$	\$
Balance, beginning of year	-	-
Reclassification from loans receivable (Note 14)	526,535	-
Reclassification from equipment deposits (Note 6)	275,333	-
Loss provision - write-off of accrued interest on loan	(26,535)	-
Loss provision - allowance on principal of loan	(100,000)	-
Loss provision - allowance on equipment deposit	(55,067)	-
<b>Balance, end of year</b>	<b>620,266</b>	<b>-</b>

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

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**For the years ended September 30, 2020 and September 30, 2019**

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**20. SUBSEQUENT EVENTS**

- (a) In December 2020, the Company issued 418,823 common shares with an aggregate fair value of \$71,200 (\$0.17 per share) to two non-executive employees and a consultant as compensation for services rendered.
- (b) In December 2020, the Company issued 911,765 common shares with an aggregate fair value of \$155,000 (\$0.17 per share) to two consultants for settlement of previously rendered services included within accounts payable and accrued liabilities.
- (c) In December 2020, the Company granted 250,000 stock options to consultants of the Company. The options are exercisable at \$0.25 each for five years until December 10, 2025 and vest immediately.
- (d) In January 2021, the Company granted 630,000 stock options to employees and consultants of the Company. The options are exercisable at \$0.35 each until January 13, 2026 and vest fully on October 1, 2021.
- (e) In January 2021, the Company cancelled 360,000 stock options held by consultants each having an exercise price of \$0.35.
- (f) In January 2021, the Company issued 145,000 common shares on the exercise of stock options by an employee and certain consultants of the Company for proceeds of \$50,750.