



Nextleaf Solutions Ltd.

**Condensed Interim Consolidated Financial Statements
For the six months ended
March 31, 2021**

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Nextleaf Solutions Ltd. (“the Company”) for the three and six months ended March 31, 2021 and March 31, 2020, have been prepared by the management of the Company and approved by the Company’s Audit Committee and the Company’s Board of Directors.

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

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

Nextleaf Solutions Ltd.**Condensed Interim Consolidated Statements of Financial Position**

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

As at March 31, 2021 and September 30, 2020

	Note	March 31, 2021 \$	September 30, 2020 \$
Assets			
Current assets			
Cash		3,124,957	988,675
Receivables and prepayments	4,9	211,243	756,751
Inventory	5	783,377	941,787
		4,119,577	2,687,213
Non-current assets			
Deposits		7,155	7,155
Property and equipment	6	5,150,776	5,549,138
Intangible assets	7	545,790	716,985
Other receivables	16	396,970	620,266
Loans receivable	14	200,000	200,000
		6,300,691	7,093,544
Total assets		10,420,268	9,780,757
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	1,378,252	2,095,445
Customer deposits		80,170	-
Lease liability - current	6	32,309	28,991
Convertible debenture	8	1,885,714	-
Deferred financing cost - current	8	199,818	-
		3,576,263	2,124,436
Non-current liabilities			
Lease liability	6	336,924	353,934
Convertible debenture	8	513,990	-
Deferred financing cost	8	100,182	-
Government loan	15	40,000	40,000
		991,096	393,934
Total liabilities		4,567,359	2,518,370
Shareholders' equity			
Share capital	8	21,539,465	20,958,363
Reserves	8	4,028,282	4,012,754
Deficit		(19,714,838)	(17,708,730)
Total shareholders' equity		5,852,909	7,262,387
Total liabilities and shareholders' equity		10,420,268	9,780,757
Nature of operations and going concern	1		
Contingency	16		
Subsequent events	17		

Approved on behalf of the Board of Directors on May 31, 2021:

"Paul Pedersen"

Director

"Charles Ackerman"

Director

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

Nextleaf Solutions Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the three and six months ended March 31,

	Note	Three months ended		Six months ended	
		March 31, 2021 \$	March 31, 2020 \$	March 31, 2021 \$	March 31, 2020 \$
Revenue					
Cannabis concentrate sales		130,515	-	1,387,104	-
Licensing	2	-	105,217	-	455,217
		130,515	105,217	1,387,104	455,217
Cost of sales - concentrate	2	575,691	-	1,772,691	-
Gross margin		(445,176)	105,217	(385,587)	455,217
Expenses					
Administrative expenses		36,498	26,187	116,335	146,408
Amortization	7	87,172	1,961	174,424	3,922
Depreciation	6	3,340	168,192	6,680	411,136
Directors' fees	9	15,450	14,300	30,900	31,800
Finance costs, net	6	12,103	4,637	18,864	9,552
Foreign exchange (gain) loss		(2,871)	(22,057)	3,730	(54,808)
Investor relations and marketing		74,941	99,663	193,365	293,645
Management fees	9	137,900	110,400	248,300	220,800
Professional fees and consulting		309,780	353,311	479,042	650,003
Research, extraction and lab supplies		5,104	78,186	29,597	103,980
Share-based payments	8,9	117,559	364,105	169,113	796,085
Wages and salaries		254,200	254,483	485,670	516,147
Loss from operating expenses		(1,051,176)	(1,453,368)	(1,956,020)	(3,128,670)
Gain on disposal of equipment	6	16,846	-	16,846	-
Government assistance	15	389,665	-	447,463	-
Interest income		-	4,675	-	9,515
Loss provision on other receivables	16	(99,243)	-	(223,296)	-
		307,268	4,675	241,013	9,515
Loss and comprehensive loss for the period		(1,189,084)	(1,343,476)	(2,100,594)	(2,663,938)
Loss per share					
Weighted average number of common shares outstanding:					
Basic #		122,129,475	108,685,544	121,460,597	108,399,683
Diluted #		122,129,475	108,685,544	121,460,597	108,399,683
Basic loss per share		(0.01)	(0.01)	(0.02)	(0.02)
Diluted loss per share		(0.01)	(0.01)	(0.02)	(0.02)

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

Nextleaf Solutions Ltd.**Condensed Interim Consolidated Statements of Cash Flows****(Unaudited – Prepared by Management)****(Expressed in Canadian Dollars)****For the six months ended March 31, 2021 and March 31, 2020**

	Note	March 31, 2021 \$	March 31, 2020 \$
Operating activities			
Loss for the period		(2,100,594)	(2,663,938)
Adjustments for:			
Amortization		174,424	3,922
Depreciation - cost of sales	6	222,721	-
Depreciation - operating expenses	6	6,680	411,136
Finance costs		18,864	9,552
Share-based payments		169,113	796,085
Shares issued for services		127,389	-
Interest income - accrued		-	(9,515)
Gain on disposal of equipment		(16,846)	-
Loss provision on other receivables		223,296	-
Non-cash working capital items:			
Receivables and prepayments		545,508	(295,258)
Inventory		381,410	-
Deposits		-	(1,000)
Accounts payable and accrued liabilities		(640,810)	159,908
Customer deposits		80,170	-
		(808,675)	(1,589,108)
Investing activities			
Purchases of property and equipment		(87,508)	(1,702,294)
Proceeds on disposal of equipment	6	47,500	-
Payments for intangible assets		(3,229)	(196,487)
		(43,237)	(1,898,781)
Financing activities			
Lease payments	6	(32,556)	(31,902)
Issuance of convertible debenture	8	3,000,000	-
Transaction costs on convertible debenture	8	(30,000)	-
Issuance of shares, net of share issue costs		50,750	-
		2,988,194	(31,902)
Increase (decrease) in cash		2,136,282	(3,519,791)
Cash, beginning of period		988,675	4,295,987
Cash, end of period		3,124,957	776,196

Supplemental cash flow information

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

Nextleaf Solutions Ltd.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity****(Unaudited – Prepared by Management)****(Expressed in Canadian Dollars)****For the six months ended March 31, 2021 and March 31, 2020**

	Common shares	Share	Reserves	Deficit	Total
	#	capital	\$	\$	\$
September 30, 2019 (Restated - Note 2)	108,123,044	17,355,831	3,056,486	(11,727,869)	8,684,448
October 1, 2019, as previously reported (Restated - Note 2)	108,123,044	17,355,831	3,056,486	(11,459,266)	8,953,051
Impact of change in accounting policy - IFRS 16 (Note 2)	-	-	-	(27,245)	(27,245)
October 1, 2019, adjusted balance	108,123,044	17,355,831	3,056,486	(11,486,511)	8,925,806
Shares issued - intangible assets	937,500	300,000	-	-	300,000
Share-based payments	-	-	796,085	-	796,085
Loss and comprehensive loss for the period	-	-	-	(2,663,938)	(2,663,938)
March 31, 2020	109,060,544	17,655,831	3,852,571	(14,150,449)	7,357,953
September 30, 2020	120,505,726	20,958,363	4,012,754	(17,708,730)	7,262,387
Exercise of options	145,000	50,750	-	-	50,750
Re-allocated on exercise of options	-	38,057	(38,057)	-	-
Re-allocated on cancellation of options	-	-	(94,486)	94,486	-
Re-allocated on expiry of warrants	-	89,906	(89,906)	-	-
Shares issued for services	473,838	127,389	-	-	127,389
Shares issued on settlement of accounts payable	1,264,706	215,000	-	-	215,000
Issuance of convertible debenture	-	-	68,864	-	68,864
Shares issued for convertible debenture transaction costs	250,000	60,000	-	-	60,000
Share-based payments	-	-	169,113	-	169,113
Loss and comprehensive loss for the period	-	-	-	(2,100,594)	(2,100,594)
March 31, 2021	122,639,270	21,539,465	4,028,282	(19,714,838)	5,852,909

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

Nextleaf Solutions Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the six months ended March 31, 2021 and March 31, 2020

1. NATURE OF OPERATIONS AND GOING CONCERN

Nextleaf Solutions Ltd. ("Nextleaf" or the "Company") was incorporated under the laws of the province of British Columbia on December 8, 2016. The Company's head office is located at #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 formulation, and delivery of cannabinoids. The Company has developed an intellectual property ("IP") portfolio, which includes a number of issued and pending patents (Note 7). The Company commercializes its intellectual property portfolio through IP licensing, production (toll processing services, and bulk sales) of CBD and THC oils through its wholly-owned subsidiary, Nextleaf Labs Ltd. ("Labs"), and selling products through provincial distribution boards for the adult-use market under the brand "Glacial Gold".

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 March 31, 2021, the Company has qualified for and accrued or received a \$40,000 loan from the Government of Canada and rent and wage subsidies of \$447,463 (Note 15).

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

As at March 31, 2021, the Company had working capital of \$543,314. 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company's annual audited consolidated financial statements for the year end September 30, 2020, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

These financial statements have been prepared on an historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All amounts in these financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

Nextleaf Solutions Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the six months ended March 31, 2021 and March 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative figures

Certain comparative figures on the condensed interim statement of cash flows have been reclassified to conform to the current period's presentation.

Principles of consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

Nextleaf Innovations Ltd.	100%	Extraction solutions company
Nextleaf Labs Ltd.	100%	Licensed processor (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.

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 (details below) 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.

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 "Licensed Patents") in exchange for a 20% royalty on the Licencee's gross revenue. The Royalty Agreement is for an undefined term. During the six months ended March 31, 2021, the Company had no licensing revenues (2020 - \$455,217) in connection with the Royalty Agreement.

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

For the six months ended March 31, 2021 and March 31, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Inventory and Cost of sales**

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.

Significant accounting policies

Except as set out below, the accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its financial statements for the year ended September 30, 2021. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

Financial instruments

The Company has expanded its financial instruments accounting policy to include the below in respect of the issuance of a convertible debenture during the six months ended March 31, 2021:

Compound financial instruments

Compound financial instruments issued by the Company are comprised of convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component representing the equity conversion feature is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. When warrants are issued and attached to the host contract, they are fair valued using the Black-Scholes option pricing model, and if necessary, the equity component of the compound financial instrument is allocated on a relative fair value basis between the equity conversion feature and the fair value of the warrants. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Embedded derivatives

Embedded derivatives are contained in non-derivative host contracts and are treated as separate derivatives when they meet the definition of a derivative, and their risks and characteristics are not closely related to those of the host contracts. Embedded derivatives are recorded at fair market value with mark-to-market adjustments recorded in profit or loss. The Company's convertible debenture did not give rise to accounting for an embedded derivative as it is denominated in Canadian dollars.

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

For the six months ended March 31, 2021 and March 31, 2020

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 was accounted for as an asset acquisition in accordance with the guidance provided in IFRS 2, *Share-based Payments* as Labs did not qualify as a business according to the definition in IFRS 3, *Business Combinations* (“IFRS 3”). Accordingly, the acquisition did constitute a business combination; rather it was treated as an issuance of common shares by the Company for the net assets of Labs.

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

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

For the six months ended March 31, 2021 and March 31, 2020

4. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments comprise the following:

	March 31, 2021	September 30, 2020
	\$	\$
Accrued receivables	49,153	175,055
Accrued Government assistance (Note 15)	-	68,160
Prepaid expenses	13,407	150,617
Sales tax recoverable	8,446	88,079
Trade receivables	140,237	274,840
	211,243	756,751

5. INVENTORY

Inventory is comprised of the following:

	March 31, 2021	September 30, 2020
	\$	\$
Raw materials	-	905,773
Production work in progress - distillate	135,908	36,014
Finished goods - distillate	647,469	-
	783,377	941,787

Inventory expensed to cost of sales during the six months ended March 31, 2021, totaled \$1,746,061 (2020 - \$nil).

Nextleaf Solutions Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the six months ended March 31, 2021 and March 31, 2020

6. PROPERTY AND EQUIPMENT

	Extraction equipment \$	Leasehold improvements \$	Right-of-use asset \$	Furniture and equipment \$	Mobile trailer \$	Total \$
Cost						
September 30, 2019	3,452,575	1,081,978	-	187,617	257,173	4,979,343
Adoption of IFRS 16	-	-	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
Accumulated depreciation						
September 30, 2019	821,742	4,880	-	46,057	89,324	962,003
Depreciation	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
Cost						
September 30, 2020	3,639,584	3,060,110	380,160	203,876	-	7,283,730
Additions	-	84,693	-	-	-	84,693
Disposal	(76,431)	-	-	-	-	(76,431)
March 31, 2021	3,563,153	3,144,803	380,160	203,876	-	7,291,992
Accumulated depreciation						
September 30, 2020	1,360,201	255,049	43,416	75,926	-	1,734,592
Depreciation (1)	234,617	183,281	21,708	12,795	-	452,401
Disposal	(45,777)	-	-	-	-	(45,777)
March 31, 2021	1,549,041	438,330	65,124	88,721	-	2,141,216
Net book value						
September 30, 2020	2,279,383	2,805,061	336,744	127,950	-	5,549,138
March 31, 2021	2,014,112	2,706,473	315,036	115,155	-	5,150,776

(1) Depreciation for the six months ended March 31, 2021 and March 31, 2020, is allocated as follows:

	March 31, 2021 \$	March 31, 2020 \$
Cost of sales	222,721	-
Inventory	223,000	-
Operating expenses	6,680	411,136
	452,401	411,136

During the six months ended March 31, 2021, the Company disposed of extraction equipment that had a net book value of \$30,654 for net proceeds, after commissions paid, of \$47,500 resulting in a gain on disposal of equipment of \$16,846 for the period then ended.

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 during the six months ended March 31, 2021, which was included in receivables (accrued receivables) as at September 30, 2020.

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

For the six months ended March 31, 2021 and March 31, 2020

6. PROPERTY AND EQUIPMENT (continued)

A continuity of equipment deposits is as follows:

	March 31, 2021	September 30, 2020
	\$	\$
Balance, beginning of period/year	-	338,148
Deposits refunded (received)	-	(65,690)
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 18)	-	(275,333)
Balance, end of period/year	-	-

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 March 31, 2021, the remaining term of the Company’s facility lease was 7.25 years (September 30, 2020 – 7.75 years) which includes the five-year extension option.

A reconciliation of the carrying amount of the lease liability as at March 31, 2021 and September 30, 2020 and changes during the period/year then ended is as follows:

	March 31, 2020	September 30, 2020
	\$	\$
Beginning of period/year	382,925	407,405
Lease payments	(32,556)	(64,131)
Lease interest (finance costs)	18,864	39,651
End of period/year	369,233	382,925
Current portion of lease liability	32,309	28,991
Non-current portion of lease liability	336,924	353,934
	369,233	382,925

Maturity analysis - contractual undiscounted cash flows

Less than one year	67,812	66,012
One to five years	287,545	284,544
Over five years	171,863	209,220
	527,220	559,776

Short-term leases are leases with a lease term of twelve months or less. As at March 31, 2021, the Company did not have any low value leases or short-term leases.

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

For the six months ended March 31, 2021 and March 31, 2020

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. 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). This resulted in restated opening balances as at September 30, 2019 included below.

	Nano emulsion technology \$	Issued patents \$	Licences (Note 3) \$	Total \$
Cost				
September 30, 2019 (Restated - Note 2)	252,550	9,555	-	262,105
Additions	373,450	27,569	270,325	671,344
September 30, 2020	626,000	37,124	270,325	933,449
Accumulated amortization				
September 30, 2019	-	1,106	-	1,106
Amortization	207,523	1,857	5,978	215,358
September 30, 2020	207,523	2,963	5,978	216,464
Cost				
September 30, 2020	626,000	37,124	270,325	933,449
Additions	-	3,229	-	3,229
March 31, 2021	626,000	40,353	270,325	936,678
Accumulated amortization				
September 30, 2020	207,523	2,963	5,978	216,464
Amortization	156,500	1,010	16,914	174,424
March 31, 2021	364,023	3,973	22,892	390,888
Net book value				
September 30, 2020	418,477	34,161	264,347	716,985
March 31, 2021	261,977	36,380	247,433	545,790

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 acquired the intellectual property for total cash payments of \$226,000 and the issuance of common shares with a fair value of \$400,000.

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.

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

For the six months ended March 31, 2021 and March 31, 2020

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 six months ended March 31, 2021:**

- 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 at \$0.35 each for proceeds of \$50,750. In addition, \$38,057 representing the fair value of the stock options granted and vested was re-allocated from reserves to share capital.
- During December 2020 to March 2021, the Company issued 473,838 common shares with an aggregate fair value of \$127,389 (between \$0.17 to \$0.33 per share) to employees and consultants as compensation for services rendered.
- In December 2020, the Company issued 1,264,706 common shares with an aggregate fair value of \$215,000 (\$0.17 per share) to consultants for settlement of previously rendered services included within accounts payable and accrued liabilities.
- On March 31, 2021, the Company issued 250,000 common shares at a fair value of \$60,000 (\$0.24 each) in conjunction with closing of the convertible debenture financing (details below) as a structuring fee for services relating to the financing. The amount was recorded as transaction costs which is a reduction from the carrying value of the convertible debenture.

Transactions for the issue of share capital during the six months ended March 31, 2020:

- The Company issued 937,500 common shares with an aggregate fair value of \$300,000 for the acquisition of cannabinoid formulations (Note 7).

Escrowed shares

The Company has certain common shares held in escrow which are subject to a timed release schedule whereby a portion of the escrowed shares were released on March 14, 2019 and continue to be released 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 March 31, 2021, 9,044,027 common shares were held in escrow (September 30, 2020 – 16,852,978).

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 March 31, 2021, 244,444 common shares of the Company (September 30, 2020 – 244,444) have been issued to non-executive employees under the Plan.

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

For the six months ended March 31, 2021 and March 31, 2020

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 March 31, 2021 and September 30, 2020 and changes during the period/year then ended is as follows:

	Period ended March 31, 2021		Year ended September 30, 2020	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of period/year	14,439,287	0.36	13,989,287	0.35
Granted	1,440,000	0.33	450,000	0.50
Exercised	(145,000)	0.35	-	-
Cancelled	(360,000)	0.35	-	-
Options outstanding, end of period/year	15,374,287	0.35	14,439,287	0.36

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

For the six months ended March 31, 2021 and March 31, 2020

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

As at March 31, 2021, 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	1.08
(1)	13,220,000	13,220,000	0.35	March 15, 2024	2.96
	150,000	150,000	0.50	July 8, 2024	3.27
	300,000	300,000	0.50	October 15, 2024	3.55
	150,000	150,000	0.50	October 16, 2024	3.55
	250,000	250,000	0.25	December 10, 2025	4.70
	630,000	260,000	0.35	January 13, 2026	4.79
	560,000	-	0.35	February 15, 2026	4.88
	15,374,287	14,444,287	0.35		3.14

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

During the six months ended March 31, 2021, the Company granted 1,440,000 stock options to employees and consultants of the Company. The options are exercisable between \$0.25 and \$0.35 each until December 10, 2025, January 13, 2026, or February 15, 2026. 250,000 stock options vested immediately, and the remainder have varying vesting terms.

During the six months ended March 31, 2021, the Company cancelled 360,000 stock options held by consultants (formerly granted in 2019) each having an exercise price of \$0.35. As a result, \$94,486 representing the fair value of the stock options granted and vested was re-allocated from reserves and credited to deficit.

The Company recorded the fair value of the stock options granted during the six months ended March 31, 2021 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:

	March 31, 2021
Risk-free interest rate	0.50%
Expected life of options (years)	5.00
Expected volatility	100%
Dividend rate	0%

Total share-based payment expense for the six months ended March 31, 2021 was \$169,113 (2020 – \$796,085) which includes stock options that vested during the period then ended.

Nextleaf Solutions Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the six months ended March 31, 2021 and March 31, 2020

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. Additionally, warrants may be issued as an incentive to complete convertible debenture financings which are fair valued using the Black-Scholes option pricing model and allocated to the equity component of the convertible debenture on a relative fair value basis with the equity conversion feature.

A summary of the Company's common share purchase warrants as at March 31, 2021 and September 30, 2020 and changes during the period/year then ended is as follows:

	Period ended March 31, 2021		Year ended September 30, 2020	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of period/year	36,116,850	0.63	25,470,305	0.69
Issued - attached to units	-	-	10,200,738	0.50
Issued - finders' warrants	-	-	195,807	0.30
Issued - services	-	-	250,000	0.40
Issued - attached to convertible debenture	6,875,000	0.288	-	-
Expired	(14,771,680)	0.69	-	-
Warrants outstanding, end of period/year	28,220,170	0.36	36,116,850	0.63

Upon expiry of warrants during the six months ended March 31, 2021, the original fair value of \$89,906 was reversed from reserves and credited to share capital.

The following table summarizes information about the warrants outstanding and exercisable at March 31, 2021:

	Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
(1)	298,625	0.40	May 15, 2021	0.12
(2)	10,400,000	0.265	July 15, 2021	0.12
	250,000	0.40	November 28, 2021	0.66
	6,666,667	0.50	May 21, 2022	1.14
	66,933	0.30	May 21, 2022	1.14
	3,534,071	0.50	May 28, 2022	1.16
	128,874	0.30	May 28, 2022	1.16
	6,875,000	0.288	March 31, 2024	3.00
	28,220,170	0.36		1.21

(1) Warrants expired unexercised subsequent to March 31, 2021.

(2) Warrants are subject to a warrant exercise incentive program discussed below.

The exercise price of these warrants was reduced to \$0.265.

Certain of these warrants were exercised subsequent to March 31, 2021 (Note 17).

Warrant exercise incentive program

During the six months ended March 31, 2021, the Company announced a warrant exercise incentive program to encourage the exercise of up to 10,400,000 outstanding share purchase warrants original expiring on May 15, 2021 (modified to July 15, 2021) (the "Warrants"). The Company has reduced the exercise price of the Warrants from \$0.70 each to \$0.265 each. Upon the exercise of each Warrant prior to July 15, 2021, the Warrant holder will receive one additional share purchase warrant (the "incentive warrant") for each Warrant exercised. Each incentive warrant will be exercisable at \$0.35 each until July 15, 2022, subject to accelerated expiry terms. There was no value recognized on modification of the Warrants during the six months ended March 31, 2021 as there was no original fair value.

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For the six months ended March 31, 2021 and March 31, 2020

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

Reserves are comprised of the accumulated fair value of stock options recognized as share-based payments, and the fair value of finders' warrants issued on private placements and assumed on its public listing (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 Warrants \$	Equity portion of convertible debt \$	Total \$
September 30, 2019	2,750,342	306,144	-	3,056,486
Options vesting	796,085	-	-	796,085
March 31, 2020	3,546,427	306,144	-	3,852,571
September 30, 2020	3,692,210	320,544	-	4,012,754
Options exercised	(38,057)	-	-	(38,057)
Options cancelled	(94,486)	-	-	(94,486)
Warrants expired	-	(89,906)	-	(89,906)
Convertible debenture issued	-	-	68,864	68,864
Options vesting	169,113	-	-	169,113
March 31, 2021	3,728,780	230,638	68,864	4,028,282

Convertible debenture

On March 31, 2021, the Company executed a Securities Purchase Agreement (the "SPA") with a creditor (the "holder") whereby the Company issued a senior secured convertible note (the "Note") and warrants to the holder for gross proceeds of \$3,000,000 (the "face value").

The principal value of the Note is \$3,300,000 whereby \$300,000 of which was initially recognized as a deferred financing charge (liability) and is credited against interest expense as the balance is amortized over the term of the Note. The Note is secured by a security interest subordinate to all existing and future property undertakings by the Company and by assignment of collateral.

The Note is convertible at any time and at the option of the holder into common shares of the Company at a conversion price of \$0.288 per share until maturity on September 30, 2022, and bears interest at a rate of 5.0% per annum. Commencing on September 1, 2021, the Company will make fourteen (14) monthly cash repayments ("installments") in the amount of \$253,393 through to September 2022 until the principal value of \$3,300,000 is repaid in full. The installments may be converted into common shares subject to certain conditions.

In connection with the SPA, the Company issued a total of 6,875,000 warrants to the holder, exercisable at a price of \$0.288 with an expiration in 36 months on March 31, 2024. There was no value attributed to the warrants issued as the value of the equity component of the note was determined to be attributable to the equity conversion feature in full (as described below).

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8. SHAREHOLDERS' EQUITY (continued)**Convertible debenture (continued)**

The Note was valued by allocating the face value to each of: (i) the convertible debenture liability; and (ii) reserves within shareholders' equity. The equity component is the residual value of the Note after determining the fair value of the liability component using a 12% discount rate. The equity component represents the equity conversion feature and the warrants issued (as described above). It was determined that the equity component was immaterial to split between the conversion feature and the warrants, and therefore, the equity component has been allocated entirely to the conversion feature.

Transaction costs of \$231,432 were incurred in connection with the issuance of the Note comprising \$30,000 in direct cash transaction costs, \$141,432 in legal, filing, and advisory fees, and a \$60,000 structuring fee was settled through the issuance of 250,000 common shares at a fair value of \$0.24 each.

A reconciliation of the convertible debenture liability, deferred financing costs (liability), and equity component within reserves is as follows:

	Liability \$	Equity \$	Deferred financing cost \$	Total \$
Balance, September 30, 2019 and September 30, 2020	-	-	-	-
Balance, September 30, 2020	-	-	-	-
Issuance of convertible debenture	2,925,379	74,621	300,000	3,300,000
Allocation of transaction costs	(225,675)	(5,757)	-	(231,432)
Discount to face value on issuance	(300,000)	-	-	(300,000)
Balance, March 31, 2021	2,399,704	68,864	300,000	2,768,568
Liabilities:				
Current portion - convertible debenture	1,885,714	-	199,818	2,085,532
Long term portion - convertible debenture	513,990	-	100,182	614,172
Shareholders' equity:				
Equity portion (reserves) - convertible debenture	-	68,864	-	68,864
Balance, March 31, 2021	2,399,704	68,864	300,000	2,768,568

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

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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 six months ended March 31, 2021 and March 31, 2020 is as follows:

	March 31, 2021	March 31, 2020
	\$	\$
Directors' fees	30,900	31,800
Management fees	248,300	220,800
Share-based payments	-	796,085
	279,200	1,048,685

Related party balances

Related party balances as at March 31, 2021 and September 30, 2020 are as follows:

	March 31, 2021	September 30, 2020
	\$	\$
Balances included in accounts payable and accrued liabilities:		
Management fees	360,000	206,251
Directors' fees	64,600	36,000
Balances included in receivables and prepayments:		
Prepaid management fees	-	38,900

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

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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

Financial assets:	Classification:	Subsequent measurement:
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

Financial liabilities:	Classification:	Subsequent measurement:
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Lease liability	Other financial liabilities	Amortized cost
Convertible debenture	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 six months ended March 31, 2021, the Company's cannabis concentrate sales (sale of bulk distillate) were generated from multiple customers.

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 March 31, 2021, credit risk for the Company arises from cash, accrued receivables, Accrued government assistance, trade receivables, other receivables, loans receivable, and deposits. The carrying amount of these financial assets represents the maximum credit exposure as at March 31, 2021.

Cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk on cash is considered insignificant. As at March 31, 2021, the Company's accrued receivables and trade receivables are current, and management considers the credit risk to be low.

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 loss provision to the balances resulting in the recognition of an additional loss provision during the six months ended March 31, 2021 of \$378,363 (year ended September 30, 2020 - \$181,602) (Note 16). See additional details below ("Impairment of financial assets").

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For the six months ended March 31, 2021 and March 31, 2020

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 March 31, 2021, 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, an accumulated loss provision of \$372,363 is recognized as at March 31, 2021 (September 30, 2020 - \$155,067) on other receivables (Note 16).

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.

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

For the six months ended March 31, 2021 and March 31, 2020

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 March 31, 2021, the Company had working capital of \$543,314, 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 March 31, 2021, 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 for the period by approximately \$2,800 (2020 - \$40,100).

(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 six months ended March 31, 2021 and March 31, 2020 as follows:

	March 31, 2021	March 31, 2020
	\$	\$
Non-cash investing activities:		
Purchases of property and equipment in accounts payable and accrued liabilities	336,401	724,923
Recognition of right-of-use asset in property and equipment	-	188,316
Purchases of intangible assets included in accounts payable and accrued liabilities	-	19,225
Non-cash financing activities:		
Fair value of common shares issued for acquisition of intangible asset	-	300,000
Shares issued in settlement of accounts payable	215,000	-
Convertible debenture transaction costs in accounts payable and accrued liabilities	141,432	-
Shares issued for convertible debenture transaction costs	60,000	-
Fair value of finders' warrants/units issued	-	-

During the six months ended March 31, 2021 and March 31, 2020, no amounts were paid for interest or income tax expenses.

Nextleaf Solutions Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the six months ended March 31, 2021 and March 31, 2020

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 six months ended March 31, 2021. 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 March 31, 2021 and September 30, 2020 and changes during the period/year then ended is as follows:

	March 31, 2021 \$	September 30, 2020 \$
Balance, beginning of period/year	200,000	586,535
Advances	-	275,000
Interest accrual (interest income)	-	18,780
Loss on forgiveness of loan (Nextleaf Labs Ltd.) (Note 3)	-	(153,780)
Reclassification to Other receivables (Note 19)	-	(526,535)
Balance, end of period/year	200,000	200,000
Current portion	-	-
Non-current portion	200,000	200,000

Promissory note – Labs:

The Company had advanced \$150,000 to the sole shareholder of Labs between the years ended September 30, 2020 and September 30, 2019 bearing interest at 5% per annum. The amounts were advanced by the shareholder to Labs and used as the initial working capital of Labs. Immediately preceding closing of the acquisition of Labs (Note 3), the aggregate principal and accrued interest of \$153,780 was forgiven.

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 March 31, 2021, the Company was owed \$200,000 which is classified as non-current.

Nextleaf Solutions Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the six months ended March 31, 2021 and March 31, 2020

15. GOVERNMENT ASSISTANCE

Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”)

During the six months ended March 31, 2021, the Company accrued or received \$447,463 (2020 - \$nil) in government assistance proceeds for CEWS and CERS in aggregate.

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. During the year ended September 30, 2020, the Company accrued or received wages and salaries subsidies \$381,059.

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.

16. OTHER RECEIVABLES AND CONTINGENCY

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 and amounts advanced as deposits for cannabis extraction equipment totaling \$275,333 (Note 6). 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 full write-off of accrued interest on the loan (\$26,535), and an accumulated provision of \$378,363 on the loan principal and the equipment deposit, as detailed in the table below.

As at March 31, 2021, the aggregate amount owed from the equipment supplier after recognition of loss provisions is \$396,970 (September 30, 2020 - \$620,266).

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). Accordingly, the Company commenced legal action on February 12, 2021 by way of issuing a notice of claim against the equipment supplier. On February 12, 2021, the equipment supplier issued a statement of defence and counterclaim involving a third party. The Company does not believe that there is any substantive merit to any of the claims asserted against it and denies that any of the claims are supported by evidence.

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. Moreover, there have been no material developments in respect of this matter and the claims have not been contested in the courts.

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

For the six months ended March 31, 2021 and March 31, 2020

16. OTHER RECEIVABLES (continued)

Other receivables comprise the following:

	March 31, 2021	September 30,
	\$	2020
		\$
Balance, beginning of period/year	620,266	-
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)
Accumulated loss provision - allowance on principal of loan	(144,000)	(100,000)
Accumulated loss provision - allowance on equipment deposit	(79,296)	(55,067)
Balance, end of period/year	396,970	620,266

During the six months ended March 31, 2021, the Company recognized a loss provision of \$223,296 (2020 - \$nil).

17. SUBSEQUENT EVENTS

- (a) In April 2021, the Company issued 45,283 common shares with an aggregate fair value of \$12,000 (\$0.265 per share) to an employee of the Company as a discretionary bonus.
- (b) In April and May 2021, the Company issued 916,750 common shares on the exercise of warrants pursuant to the warrant exercise incentive program (Note 8) for proceeds of \$242,939.
- (c) In May 2021, the Company issued 427,500 common shares with an aggregate fair value of \$105,000 (between \$0.24 and \$0.25 each) to two consultants for services rendered.
- (d) In May 2021, the Company issued 440,000 common shares on the acquisition of all rights associated with the use of the speciality concentrates and extracts brand, "Glacial Gold".