



**Nextleaf Solutions Ltd.**

**Condensed Interim Consolidated Financial Statements  
For the nine months ended  
June 30, 2021**

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

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## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of Nextleaf Solutions Ltd. (“the Company”) for the three and nine months ended June 30, 2021 and June 30, 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.

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**Nextleaf Solutions Ltd.****Condensed Interim Consolidated Statements of Financial Position****(Unaudited – Prepared by Management)****(Expressed in Canadian Dollars)****As at June 30, 2021 and September 30, 2020**

	Note	June 30, 2021 \$	September 30, 2020 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash		2,012,982	988,675
Receivables and prepayments	4,10	560,983	756,751
Inventory	5	1,836,359	941,787
		<b>4,410,324</b>	<b>2,687,213</b>
<b>Non-current assets</b>			
Deposits		7,155	7,155
Property and equipment	6	4,946,954	5,549,138
Intangible assets	7	568,532	716,985
Other receivables	17	317,576	620,266
Loans receivable	15	200,000	200,000
		<b>6,040,217</b>	<b>7,093,544</b>
<b>Total assets</b>		<b>10,450,541</b>	<b>9,780,757</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	10	2,053,865	2,095,445
Customer deposits		42,500	-
Lease liability - current	6	34,031	28,991
Convertible debenture	9	1,953,742	-
Deferred financing cost - current	9	199,818	-
		<b>4,283,956</b>	<b>2,124,436</b>
<b>Non-current liabilities</b>			
Lease liability	6	328,096	353,934
Convertible debenture	9	706,841	-
Deferred financing cost	9	50,228	-
Government loan	16	40,000	40,000
		<b>1,125,165</b>	<b>393,934</b>
<b>Total liabilities</b>		<b>5,409,121</b>	<b>2,518,370</b>
<b>Shareholders' equity</b>			
Share capital	9	22,174,950	20,958,363
Reserves	9	3,921,040	4,012,754
Deficit		(21,054,570)	(17,708,730)
<b>Total shareholders' equity</b>		<b>5,041,420</b>	<b>7,262,387</b>
<b>Total liabilities and shareholders' equity</b>		<b>10,450,541</b>	<b>9,780,757</b>
<b>Nature of operations and going concern</b>	1		
<b>Contingency</b>	17		
<b>Subsequent events</b>	18		

Approved on behalf of the Board of Directors on August 30, 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 nine months ended June 30,

	Note	Three months ended		Nine months ended	
		June 30, 2021 \$	June 30, 2020 \$	June 30, 2021 \$	June 30, 2020 \$
<b>Revenue</b>					
Cannabis concentrate sales		655,861	-	2,042,965	-
Licensing	2	-	-	-	455,217
		<b>655,861</b>	-	<b>2,042,965</b>	455,217
<b>Cost of sales - concentrate</b>	2	<b>713,444</b>	-	<b>2,520,090</b>	-
<b>Gross margin</b>		<b>(57,583)</b>	-	<b>(477,125)</b>	455,217
<b>Expenses</b>					
Administrative expenses		85,761	126,477	202,097	272,886
Accretion/interest on convertible debenture	8	149,561	-	149,561	-
Amortization	7	87,257	1,961	261,681	5,883
Depreciation	6	3,340	123,116	10,020	534,252
Directors' fees	10	15,450	17,770	46,350	49,570
Finance costs, net	6	9,172	4,352	28,036	13,903
Foreign exchange (gain) loss		(54)	(151,424)	3,676	(206,232)
Investor relations and marketing		109,569	159,628	302,934	453,273
Management fees	10	(234,200)	137,900	344,600	358,700
Professional fees and consulting		280,774	348,605	759,816	998,608
Research, extraction and lab supplies		4,060	146,992	33,657	250,972
Share-based payments	9,10	96,930	107,207	266,043	903,292
Wages and salaries		304,003	59,983	789,673	576,130
<b>Loss from operating expenses</b>		<b>(911,623)</b>	<b>(1,082,567)</b>	<b>(3,198,144)</b>	<b>(4,211,237)</b>
Gain on disposal of equipment	6	-	-	16,846	-
Government assistance	16	102,987	57,138	550,450	57,138
Interest income		-	4,675	-	14,190
Loss provision on other receivables	17	(79,394)	-	(302,690)	-
Loss on settlement of accounts payable	9	-	-	(13,676)	-
		<b>23,593</b>	61,813	<b>250,930</b>	71,328
<b>Loss and comprehensive loss for the period</b>		<b>(945,613)</b>	<b>(1,020,754)</b>	<b>(3,424,339)</b>	<b>(3,684,692)</b>
<b>Loss per share</b>					
<b>Weighted average number of common shares outstanding:</b>					
<b>Basic #</b>		<b>123,736,738</b>	113,623,102	<b>122,215,291</b>	110,134,468
<b>Diluted #</b>		<b>123,736,738</b>	113,623,102	<b>122,215,291</b>	110,134,468
<b>Basic loss per share</b>		<b>(0.01)</b>	(0.01)	<b>(0.03)</b>	(0.03)
<b>Diluted loss per share</b>		<b>(0.01)</b>	(0.01)	<b>(0.03)</b>	(0.03)

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 nine months ended June 30, 2021 and June 30, 2020**

	Note	June 30, 2021 \$	June 30, 2020 \$
<b>Operating activities</b>			
Loss for the period		(3,424,339)	(3,684,692)
Adjustments for:			
Accretion/interest on convertible debenture	8	149,561	-
Amortization		261,681	5,883
Depreciation - cost of sales	6	632,992	-
Depreciation - operating expenses	6	10,020	534,252
Finance costs		28,036	13,903
Professional fees and consulting - warrants issued		-	24,500
Share-based payments		266,043	903,292
Shares issued for services		244,390	-
Interest income - accrued		-	(14,190)
Gain on disposal of equipment		(16,846)	-
Loss provision on other receivables		302,690	-
Loss on settlement of accounts payable		13,676	-
Non-cash working capital items:			
Receivables and prepayments		156,214	(503,057)
Inventory		(872,031)	-
Deposits		-	(1,000)
Accounts payable and accrued liabilities		294,186	489,509
Customer deposits		80,170	-
		<b>(1,873,557)</b>	<b>(2,231,600)</b>
<b>Investing activities</b>			
Funds advanced for loans receivable		-	(75,000)
Purchases of property and equipment		(228,892)	(2,785,031)
Proceeds on disposal of equipment	6	47,500	-
Payments for intangible assets		(3,228)	(273,686)
		<b>(184,620)</b>	<b>(3,133,717)</b>
<b>Financing activities</b>			
Lease payments	6	(48,834)	(47,852)
Government loan proceeds	16	-	40,000
Issuance of convertible debenture	9	3,000,000	-
Transaction costs on convertible debenture	9	(178,932)	-
Issuance of common shares, net of share issue costs		310,250	2,984,147
		<b>3,082,484</b>	<b>2,976,295</b>
<b>Increase (decrease) in cash</b>		<b>1,024,307</b>	<b>(2,389,022)</b>
<b>Cash, beginning of period</b>		<b>988,675</b>	<b>4,295,987</b>
<b>Cash, end of period</b>		<b>2,012,982</b>	<b>1,906,965</b>

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 nine months ended June 30, 2021 and June 30, 2020**

	<b>Common shares #</b>	<b>Share capital \$</b>	<b>Reserves \$</b>	<b>Deficit \$</b>	<b>Total \$</b>
September 30, 2019	108,123,044	17,355,831	3,056,486	(11,727,869)	8,684,448
October 1, 2019, as previously reported	108,123,044	17,355,831	3,056,486	(11,727,869)	8,684,448
Impact of change in accounting policy - IFRS 16	-	-	-	(27,245)	(27,245)
October 1, 2019, adjusted balance	108,123,044	17,355,831	3,056,486	(11,755,114)	8,657,203
Private placement units issued	10,200,738	3,060,221	-	-	3,060,221
Share issue costs - cash	-	(76,074)	-	-	(76,074)
Share issue costs - warrants	-	(34,200)	34,200	-	-
Shares issued - intangible assets	937,500	300,000	-	-	300,000
Shares issued - Employee Equity Participation Plan	176,318	48,169	-	-	48,169
Warrants issued - services	-	-	24,500	-	24,500
Share-based payments	-	-	855,123	-	855,123
Loss and comprehensive loss for the period	-	-	-	(3,684,692)	(3,684,692)
June 30, 2020	119,437,600	20,653,947	3,970,309	(15,439,806)	9,184,450
September 30, 2020	120,505,726	20,958,363	4,012,754	(17,708,730)	7,262,387
Exercise of warrants	979,250	259,501	-	-	259,501
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	-	225,214	(225,214)	-	-
Shares issued for services	1,299,562	304,389	-	-	304,389
Shares issued on settlement of accounts payable	911,765	168,676	-	-	168,676
Shares issued on acquisition of brand (intangible assets)	440,000	110,000	-	-	110,000
Shares issued for convertible debenture transaction costs	250,000	60,000	-	-	60,000
Share-based payments	-	-	266,043	-	266,043
Loss and comprehensive loss for the period	-	-	-	(3,424,339)	(3,424,339)
June 30, 2021	124,531,303	22,174,950	3,921,040	(21,038,583)	5,057,407

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

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## Nextleaf Solutions Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

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For the nine months ended June 30, 2021 and June 30, 2020

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#### 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 and for the period ended June 30, 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 \$550,450 (Note 16).

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

As at June 30, 2021, the Company had working capital of \$126,368. 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.

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**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 "Licensee"). The Company recognizes revenue as a percentage of the Licensee's revenue when the Licensee 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 "Licensee"). Pursuant to the Royalty Agreement, the Company granted the Licensee a non-exclusive Licence for the use of certain issued and pending patents (the "Licensed Patents") in exchange for a 20% royalty on the Licensee's gross revenue. The Royalty Agreement is for an undefined term. During the nine months ended June 30, 2021, the Company had no licensing revenues (2020 - \$455,217) in connection with the Royalty Agreement.



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## Nextleaf Solutions Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

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For the nine months ended June 30, 2021 and June 30, 2020

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#### 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 for expanding the financial instruments accounting policy 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 nine months ended June 30, 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.

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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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 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.

	<b>July 29, 2020</b>
	<b>\$</b>
<b>Assets of Labs acquired:</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 Condensed Interim Consolidated Financial Statements****(Unaudited – Prepared by Management)****(Expressed in Canadian Dollars)**

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**4. RECEIVABLES AND PREPAYMENTS**

Receivables and prepayments comprise the following:

	<b>June 30, 2021</b>	September 30, 2020
	<b>\$</b>	<b>\$</b>
Accrued receivables	-	175,055
Accrued Government assistance (Note 15)	-	68,160
Prepaid expenses	-	150,617
Sales tax recoverable	61,797	88,079
Trade receivables	499,186	274,840
	<b>560,983</b>	<b>756,751</b>

**5. INVENTORY**

Inventory is comprised of the following:

	<b>June 30, 2021</b>	September 30, 2020
	<b>\$</b>	<b>\$</b>
Raw materials	-	905,773
Production work in progress - distillate	138,863	36,014
Supplies and hardware	21,406	-
Finished goods - distillate	1,676,090	-
	<b>1,836,359</b>	<b>941,787</b>

Inventory expensed to cost of sales during the nine months ended June 30, 2021, totaled \$2,064,503 (2020 - \$nil).

## Nextleaf Solutions Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the nine months ended June 30, 2021 and June 30, 2020

#### 6. PROPERTY AND EQUIPMENT

	Extraction equipment \$	Leasehold improvements \$	Right-of-use asset \$	Furniture and equipment \$	Mobile trailer \$	Total \$
<b>Cost</b>						
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
<b>Accumulated depreciation</b>						
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
<b>Cost</b>						
September 30, 2020	3,639,584	3,060,110	380,160	203,876	-	7,283,730
Additions	9,330	84,693	-	-	-	94,023
Disposal	(76,431)	-	-	-	-	(76,431)
<b>June 30, 2021</b>	<b>3,572,483</b>	<b>3,144,803</b>	<b>380,160</b>	<b>203,876</b>	<b>-</b>	<b>7,301,322</b>
<b>Accumulated depreciation</b>						
September 30, 2020	1,360,201	255,049	43,416	75,926	-	1,734,592
Depreciation (1)	337,500	276,299	32,562	19,192	-	665,553
Disposal	(45,777)	-	-	-	-	(45,777)
<b>June 30, 2021</b>	<b>1,651,924</b>	<b>531,348</b>	<b>75,978</b>	<b>95,118</b>	<b>-</b>	<b>2,354,368</b>
<b>Net book value</b>						
September 30, 2020	2,279,383	2,805,061	336,744	127,950	-	5,549,138
<b>June 30, 2021</b>	<b>1,920,559</b>	<b>2,613,455</b>	<b>304,182</b>	<b>108,758</b>	<b>-</b>	<b>4,946,954</b>

(1) Depreciation for the nine months ended June 30, 2021 and June 30, 2020, is allocated as follows:

	June 30, 2021 \$	June 30, 2020 \$
Cost of sales	632,992	-
Inventory	22,541	-
Operating expenses	10,020	534,252
	<b>665,553</b>	<b>534,252</b>

During the nine months ended June 30, 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 nine months ended June 30, 2021, which was included in receivables (accrued receivables) as at September 30, 2020.

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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

A continuity of equipment deposits is as follows:

	<b>June 30, 2021</b>	September 30, 2020
	<b>\$</b>	<b>\$</b>
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	-	(275,333)
<b>Balance, end of period/year</b>	<b>-</b>	<b>-</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 June 30, 2021, the remaining term of the Company’s facility lease was 7.00 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 June 30, 2021 and September 30, 2020 and changes during the period/year then ended is as follows:

	<b>June 30, 2020</b>	September 30, 2020
	<b>\$</b>	<b>\$</b>
Beginning of period/year	382,925	407,405
Lease payments	(48,834)	(64,131)
Lease interest (finance costs)	28,036	39,651
<b>End of period/year</b>	<b>362,127</b>	<b>382,925</b>
<b>Current portion of lease liability</b>	<b>34,031</b>	28,991
<b>Non-current portion of lease liability</b>	<b>328,096</b>	353,934
	<b>362,127</b>	<b>382,925</b>

**Maturity analysis - contractual undiscounted cash flows**

Less than one year	68,712	66,012
One to five years	289,045	284,544
Over five years	153,185	209,220
	<b>510,942</b>	<b>559,776</b>

Short-term leases are leases with a lease term of twelve months or less. As at June 30, 2021 and September 30, 2020, the Company did not have any low value leases or short-term leases.

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**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) \$	Brand \$	Total \$
<b>Cost</b>					
September 30, 2019	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
<b>Accumulated amortization</b>					
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
<b>Cost</b>					
September 30, 2020	626,000	37,124	270,325	-	933,449
Additions	-	3,228	-	110,000	113,228
June 30, 2021	626,000	40,352	270,325	110,000	1,046,677
<b>Accumulated amortization</b>					
September 30, 2020	207,523	2,963	5,978	-	216,464
Amortization	234,750	1,513	25,418	-	261,681
June 30, 2021	442,273	4,476	31,396	-	478,145
<b>Net book value</b>					
September 30, 2020	418,477	34,161	264,347	-	716,985
June 30, 2021	183,727	35,876	238,929	110,000	568,532

**Brand acquisition – Glacial Gold**

On May 12, 2021, the Company acquired all rights associated with a specialty concentrates and extracts brand, "Glacial Gold". The Company acquired the brand by issuing 440,000 common shares at a fair value of \$110,000 (\$0.25 each) (Note 9).

**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.

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**8. 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 “cash 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 by way of a General Security Agreement over the assets of the business.

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 inclusive of principal and interest (“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 and coupon interest 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 equity conversion feature of the instrument was measured to be insignificant. Consequently, there was no value to bifurcate and apply to the warrants.

The Note was valued initially by measuring the fair value of the liability component using an 18% discount rate, and by allocating the residual (using the residual value method) to the equity conversion feature. The equity conversion feature was determined to be nominal, and therefore was assessed as \$nil.

Transaction costs of \$238,932 were incurred in connection with the issuance of the Note comprising \$30,000 in direct cash transaction costs, \$148,932 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 and deferred financing costs (liability) is as follows:

	<b>Liability</b>	<b>Deferred</b>	<b>Total</b>
	<b>\$</b>	<b>financing cost</b>	<b>\$</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, September 30, 2019 and September 30, 2020	-	-	-
Balance, September 30, 2020	-	-	-
Proceeds on issuance of convertible debenture	3,000,000	-	3,000,000
Allocation of transaction costs	(238,932)	-	(238,932)
Original issue discount	(300,000)	300,000	-
Accretion/interest (expense) income	199,515	(49,954)	149,561
<b>Balance, June 30, 2021</b>	<b>2,660,583</b>	<b>250,046</b>	<b>2,910,629</b>
<b>Liabilities:</b>			
Current portion - convertible debenture	1,953,742	199,818	2,153,560
Long term portion - convertible debenture	706,841	50,228	757,069
<b>Balance, June 30, 2021</b>	<b>2,660,583</b>	<b>250,046</b>	<b>2,910,629</b>

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## Nextleaf Solutions Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

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For the nine months ended June 30, 2021 and June 30, 2020

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#### 9. SHAREHOLDERS' EQUITY

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

##### Issued and Outstanding

##### Transactions for the issue of share capital during the nine months ended June 30, 2021:

- Between December 2020 and June 2021, the Company issued 1,299,562 common shares at a fair value of \$304,389 (between \$0.17 to \$0.33 per share) to employees and consultants as compensation for services rendered.
- In December 2020, the Company issued 911,765 common shares with an aggregate fair value of \$168,676 (\$0.185 per share) to consultants for settlement of previously rendered services included within accounts payable and accrued liabilities. The difference between the carrying value of the amounts settled within accounts payable and accrued liabilities and the fair value of the common shares issued of \$13,676 was recognized as a loss on settlement of accounts payable.
- 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.
- 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 (Note 8) 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.
- Between April and June 2021, the Company issued 979,250 common shares on the exercise of warrants pursuant to the warrant exercise incentive program for proceeds of \$259,501 (see details below).
- 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" (Note 7) at a fair value of \$110,000 (\$0.25 each).

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

- On February 6, 2020, the Company issued 937,500 common shares with an aggregate fair value of \$300,000 (\$0.32 per share) for the acquisition of the nano emulsion technology (Note 7).
- From April through to June 2020, the Company issued 176,318 common shares pursuant to the Employee Equity Participation Plan (details below) for non-cash consideration at an aggregate fair value of \$48,169. The 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 consisted of one common share and one 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.



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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**9. SHAREHOLDERS' EQUITY (continued)****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 500,000 common shares (September 30, 2020 – 750,000) held in escrow pursuant to the acquisition of Labs which occurred on July 29, 2020.

As at June 30, 2021, 10,262,317 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 June 30, 2021, 244,444 common shares of the Company (September 30, 2020 – 244,444) have been issued to non-executive employees under the Plan.

There were no issuances under the Plan during the nine months ended June 30, 2021 (2020 – none).

**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.

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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

The Company has adopted a stock option plan (the "Plan") which provides eligible Directors, Officers, employees and consultants with the opportunity to acquire common shares of the Company. The maximum number of common shares issuable under the Plan shall not exceed 20% of the number of common shares of the Company issued and outstanding as of each award date, inclusive of all common shares reserved for issuance pursuant to previously granted stock options. The stock options have a maximum term of five years 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 June 30, 2021 and September 30, 2020 and changes during the period/year then ended is as follows:

	Period ended June 30, 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	-	-
<b>Options outstanding, end of period/year</b>	<b>15,374,287</b>	<b>0.35</b>	<b>14,439,287</b>	<b>0.36</b>

As at June 30, 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	0.84
(1)	13,220,000	13,220,000	0.35	March 15, 2024	2.71
	150,000	150,000	0.50	July 8, 2024	3.02
	300,000	300,000	0.50	October 15, 2024	3.30
	150,000	150,000	0.50	October 16, 2024	3.30
	250,000	250,000	0.25	December 10, 2025	4.45
	630,000	260,000	0.35	January 13, 2026	4.54
	560,000	-	0.35	February 15, 2026	4.63
	<b>15,374,287</b>	<b>14,444,287</b>	<b>0.35</b>		<b>2.89</b>

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

During the nine months ended June 30, 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. 510,000 stock options vested immediately, and the remainder have varying vesting terms.

During the nine months ended June 30, 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.

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**9. SHAREHOLDERS' EQUITY (continued)**

The Company recorded the fair value of the stock options granted during the nine months ended June 30, 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:

	June 30, 2021	June 30, 2020
Risk-free interest rate	0.50%	1.57%
Expected life of options (years)	5.00	5.00
Expected volatility	100%	100%
Dividend rate	0%	0%

Total share-based payment expense for the nine months ended June 30, 2021 was \$266,043 (2020 – \$903,292) which includes stock options that vested during the period then ended.

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

	Period ended June 30, 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	-	-
Issued - exercise incentive program	979,250	0.35	-	-
Exercised	(979,250)	0.265	-	-
Expired	(15,070,305)	0.69	-	-
<b>Warrants outstanding, end of period/year</b>	<b>27,921,545</b>	<b>0.37</b>	<b>36,116,850</b>	<b>0.63</b>

Upon expiry of warrants during the nine months ended June 30, 2021, certain of the warrants were issued as compensatory warrants and had a fair value recognized within reserves upon original issuance. Accordingly, their original fair values of \$225,214 was reversed from reserves and credited to share capital.

## Nextleaf Solutions Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

(Expressed in Canadian Dollars)

For the nine months ended June 30, 2021 and June 30, 2020

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

##### Warrants (continued)

The following table summarizes information about the warrants outstanding and exercisable at June 30, 2021:

	Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
(1)(2)	9,420,750	0.265	July 15, 2021	0.04
	250,000	0.40	November 28, 2021	0.41
	6,666,667	0.50	May 21, 2022	0.89
	66,933	0.30	May 21, 2022	0.89
	3,534,071	0.50	May 28, 2022	0.91
	128,874	0.30	May 28, 2022	0.91
(3)	979,250	0.35	July 15, 2022	1.04
	6,875,000	0.288	March 31, 2024	2.75
	<b>27,921,545</b>	<b>0.37</b>		<b>1.07</b>

(1) Warrants expired unexercised subsequent to June 30, 2021.

(2) Warrants were subject to a warrant exercise incentive program discussed below.  
The exercise price of these warrants was reduced to \$0.265.

(3) Warrants were issued pursuant to warrant exercise incentive program.

##### Warrant exercise incentive program

During the nine months ended June 30, 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 received one additional share purchase warrant (the "incentive warrant") for each Warrant exercised. Each incentive warrant is 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 nine months ended June 30, 2021 as there was no original fair value.

The warrant exercise incentive program concluded on July 15, 2021 with a total of 1,004,250 Warrants being exercised into 979,250 incentive warrants. The program resulted in proceeds to the Company of \$266,126. Of this total, 25,000 warrants were exercised subsequent to June 30, 2021, for proceeds of \$6,625.

##### 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 \$	Total \$
September 30, 2019	2,750,342	306,144	3,056,486
Finders' warrants issued	-	34,200	34,200
Warrants issued - debt settlement	-	24,500	24,500
Options vesting	855,123	-	855,123
June 30, 2020	3,605,465	364,844	3,970,309
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	-	(225,214)	(225,214)
Options vesting	266,043	-	266,043
June 30, 2021	<b>3,825,710</b>	<b>95,330</b>	<b>3,921,040</b>

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**9. SHAREHOLDERS' EQUITY (continued)****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.

The Note was valued by allocating the face value to the convertible debenture liability as the equity conversion feature was determined to be immaterial and was recognized at \$nil. The fair value of the liability component was determined using an 18% discount rate.

Transaction costs of \$238,932 were incurred in connection with the issuance of the Note comprising \$30,000 in direct cash transaction costs, \$148,932 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:

	<b>Liability</b>	<b>Deferred financing cost</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, September 30, 2019 and September 30, 2020	-	-	-
Balance, September 30, 2020	-	-	-
Issuance of convertible debenture	2,461,068	300,000	2,761,068
Allocation of transaction costs	238,932	-	238,932
Discount to face value on issuance	(300,000)	-	(300,000)
<b>Balance, June 30, 2021</b>	<b>2,400,000</b>	<b>300,000</b>	<b>2,700,000</b>
<b>Liabilities:</b>			
Current portion - convertible debenture	2,183,560	199,818	2,383,378
Long term portion - convertible debenture	603,761	50,228	653,989
<b>Shareholders' equity:</b>			
Equity portion (reserves) - convertible debenture	-	-	-
<b>Balance, June 30, 2021</b>	<b>2,787,321</b>	<b>250,046</b>	<b>3,037,367</b>

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**10. RELATED PARTY TRANSACTIONS**

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

**Key management personnel compensation**

The remuneration of key management for the nine months ended June 30, 2021 and June 30, 2020 is as follows:

	<b>June 30, 2021</b>	June 30, 2020
	<b>\$</b>	\$
Directors' fees	46,350	49,570
Management fees	344,600	358,700
Share-based payments	-	564,753
	<b>390,950</b>	973,023

**Related party balances**

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

	<b>June 30, 2021</b>	September 30, 2020
	<b>\$</b>	\$
Balances included in accounts payable and accrued liabilities:		
Management fees	316,500	206,251
Directors' fees	78,840	36,000
Balances included in receivables and prepayments:		
Prepaid management fees	-	38,900

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**11. 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
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 nine months ended June 30, 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 June 30, 2021, credit risk for the Company arises from cash, trade receivables, other receivables, loans receivable, and deposits. The carrying amount of these financial assets represents the maximum credit exposure as at June 30, 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 June 30, 2021, the Company's 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 nine months ended June 30, 2021 of \$302,690 (year ended September 30, 2020 - \$181,602) (Note 17). See additional details below ("Impairment of financial assets").

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**11. 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, other receivables, and deposits. 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 June 30, 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 \$457,757 is recognized as at June 30, 2021 (September 30, 2020 - \$181,602) on other receivables (Note 17).

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 Condensed Interim Consolidated Financial Statements****(Unaudited – Prepared by Management)****(Expressed in Canadian Dollars)**

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**For the nine months ended June 30, 2021 and June 30, 2020**

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

The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company has been successful in raising equity financing in the past; however, there is no assurance that it will be able to do so in the future. As at June 30, 2021, the Company had working capital of \$126,368, which is considered sufficient to fund future operations and obligations as they come due, and to allow the Company to meet business objectives for at least the next twelve months (Note 1).

**Market risk**

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

**(i) Currency risk**

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

As at June 30, 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 \$2,600 (2020 - \$37,100).

**(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.

**12. SUPPLEMENTAL CASH FLOW INFORMATION**

The Company incurred non-cash investing and financing activities during the nine months ended June 30, 2021 and June 30, 2020 as follows:

	June 30, 2021 \$	June 30, 2020 \$
Non-cash investing activities:		
Purchases of property and equipment in accounts payable and accrued liabilities	204,347	52,368
Recognition of right-of-use asset in property and equipment	-	188,316
Purchases of intangible assets included in accounts payable and accrued liabilities	-	16,143
Non-cash financing activities:		
Fair value of common shares issued for acquisition of brand/intangible asset	110,000	300,000
Shares issued in settlement of accounts payable	228,676	-
Shares issued for convertible debenture transaction costs	60,000	-
Fair value of finders' warrants/units issued	-	34,200

During the nine months ended June 30, 2021 and June 30, 2020, no amounts were paid for interest or income tax expenses.

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## Nextleaf Solutions Ltd.

### Notes to the Condensed Interim Consolidated Financial Statements

(Unaudited – Prepared by Management)

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For the nine months ended June 30, 2021 and June 30, 2020

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#### 13. CAPITAL RISK MANAGEMENT

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company 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 nine months ended June 30, 2021. The Company is not subject to externally imposed capital requirements.

#### 14. 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.

#### 15. LOANS RECEIVABLE

A summary of the Company's loans receivable as at June 30, 2021 and September 30, 2020 and changes during the period/year then ended is as follows:

	June 30, 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)
<b>Balance, end of period/year</b>	<b>200,000</b>	<b>200,000</b>
<b>Current portion</b>	<b>-</b>	<b>-</b>
<b>Non-current portion</b>	<b>200,000</b>	<b>200,000</b>

##### *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 – Licensee (Note 17):*

During the year ended September 30, 2020, the Company provided \$200,000 as a working capital advance to the Licensee further described in Note 17 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 June 30, 2021, the Company was owed \$200,000 which is classified as non-current.

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

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**16. GOVERNMENT ASSISTANCE**Canada Emergency Wage Subsidy (“CEWS”) and Canada Emergency Rent Subsidy (“CERS”)

During the nine months ended June 30, 2021, the Company accrued or received \$550,450 (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.

**17. 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 (Note 15) 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), plus an accumulated provision through to June 30, 2021, of \$457,757 on the loan principal and the equipment deposit, as detailed in the table below.

As at June 30, 2021, the aggregate amount owed from the equipment supplier after recognition of loss provisions is \$317,576 (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 January 6, 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.

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**For the nine months ended June 30, 2021 and June 30, 2020**

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**17. OTHER RECEIVABLES AND CONTINGENCY (continued)**

Other receivables comprise the following:

	<b>June 30, 2021</b>	<b>September 30, 2020</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of period/year	620,266	-
Reclassification from loans receivable (Note 15)	-	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	(195,200)	(100,000)
Accumulated loss provision - allowance on equipment deposit	(107,490)	(55,067)
<b>Balance, end of period/year</b>	<b>317,576</b>	<b>620,266</b>

During the nine months ended June 30, 2021, the Company recognized a loss provision of \$302,690 (2020 - \$nil).

**18. SUBSEQUENT EVENTS**

- (a) In August 2021, the Company issued 25,000 common shares on the exercise of warrants pursuant to the warrant exercise incentive program for proceeds of \$6,625 (Note 9).
- (b) In August 2021, the Company issued 761,905 common shares at a fair value of \$160,000 (\$0.21 per share) to consultants of the Company as compensation for services provided.
- (c) In August 2021, the Company granted 790,000 stock options to non-executive independent directors and a non-executive employee of the Company. The options are exercisable at \$0.275 each until August 5, 2026 and vest immediately.