



Nextleaf Solutions Ltd.

Consolidated Financial Statements

September 30, 2021

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Nextleaf Solutions Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Nextleaf Solutions Ltd. (the "Company"), which comprise the consolidated statements of financial position as at September 30, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

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

Other Information

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

Vancouver, Canada

Chartered Professional Accountants

January 31, 2022

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

As at September 30, 2021 and September 30, 2020

	Note	September 30, 2021 \$	September 30, 2020 \$
Assets			
Current assets			
Cash		915,385	988,675
Receivables and prepayments	4,10	1,221,174	756,751
Inventory	5	1,824,066	941,787
		3,960,625	2,687,213
Non-current assets			
Deposits		57,751	7,155
Property and equipment	6	4,693,175	5,549,138
Intangible assets	7	481,204	716,985
Other receivables	17	-	620,266
Loans receivable	15	-	200,000
		5,232,130	7,093,544
Total assets		9,192,755	9,780,757
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	10	2,476,946	2,095,445
Customer deposits		42,500	-
Lease liability - current	6	35,300	28,991
Convertible debenture	8	2,852,122	-
		5,406,868	2,124,436
Non-current liabilities			
Lease liability	6	318,634	353,934
Government loan	16	40,000	40,000
		358,634	393,934
Total liabilities		5,765,502	2,518,370
Shareholders' equity			
Share capital	9	22,341,574	20,958,363
Reserves	9	4,085,276	4,012,754
Deficit		(22,999,597)	(17,708,730)
Total shareholders' equity		3,427,253	7,262,387
Total liabilities and shareholders' equity		9,192,755	9,780,757
Nature of operations and going concern	1		
Other receivables and contingency	17		
Subsequent events	19		

Approved on behalf of the Board of Directors on January 31, 2022:

"Paul Pedersen"

Director

"Charles Ackerman"

Director

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

Nextleaf Solutions Ltd.**Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)****For the years ended September 30, 2021, and September 30, 2020**

	Note	September 30, 2021 \$	September 30, 2020 \$
Revenue			
Cannabis concentrate sales		3,068,805	235,467
Product sales		310,389	-
Licensing	2	-	455,217
		3,379,194	690,684
Cost of sales		(4,234,223)	(736,854)
Gross margin		(855,029)	(46,170)
Expenses			
Administrative expenses		312,795	344,653
Accretion/interest on convertible debenture	8	344,447	-
Amortization	7	349,009	215,358
Depreciation	6	13,359	656,618
Directors' fees	10	65,200	63,850
Finance costs, net	6	37,021	39,651
Foreign exchange loss (gain)		11,563	(162,904)
Investor relations and marketing		338,820	588,385
Management fees	10	442,900	469,100
Professional fees and consulting		1,004,531	1,449,370
Research, extraction and lab supplies		37,606	251,788
Share-based payments	9,10	430,279	897,568
Wages and salaries		1,076,395	1,010,116
		(4,463,925)	(5,823,553)
Gain (loss) on disposal of equipment	6	16,846	(26,039)
Government assistance	16	850,231	438,197
Interest income		-	18,780
Loss provision on loans receivable	15	(200,000)	(153,780)
Loss provision on receivables	17	(719,800)	(181,602)
Loss on settlement of accounts payable	9	(13,676)	-
Write-off of equipment deposits	6	-	(179,449)
		(66,399)	(83,893)
Loss and comprehensive loss for the year		(5,385,353)	(5,953,616)
Loss per share			
Weighted average number of common shares outstanding:			
Basic #		122,921,939	112,664,390
Diluted #		122,921,939	112,664,390
Basic loss per share		(0.04)	(0.05)
Diluted loss per share		(0.04)	(0.05)

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

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

For the years ended September 30, 2021 and September 30, 2020

	Note	September 30, 2021 \$	September 30, 2020 \$
Operating activities			
Loss for the year		(5,385,353)	(5,953,616)
Adjustments for:			
Administrative - equipment deposits		-	17,790
Accretion/interest on convertible debenture		344,447	-
Amortization		349,009	215,358
Depreciation - cost of sales	6	847,656	237,779
Depreciation - operating expenses	6	13,359	656,618
Finance costs		37,021	39,651
Professional fees and consulting - warrants issued		-	24,500
Share-based payments		430,279	897,568
Wages and salaries - shares issued		-	67,585
Shares issued for services		464,389	-
Loss (gain) on disposal of equipment		(16,846)	26,039
Interest income - accrued		-	(18,780)
Loss provision on loans receivable		200,000	153,780
Loss provision on receivables		719,800	181,602
Loss on settlement of accounts payable		13,676	-
Write-off of equipment deposits paid in cash		-	179,449
Write-off of equipment deposits in accounts payable and accrued liabilities		-	(266,930)
Non-cash working capital items:			
Receivables and prepayments		(563,957)	(375,041)
Inventory		(1,083,887)	(34,541)
Deposits		(50,596)	(1,000)
Accounts payable and accrued liabilities		768,157	588,037
Customer deposits		42,500	-
		(2,870,346)	(3,364,152)
Investing activities			
Funds advanced for loans receivable		-	(275,000)
Refund of equipment deposits, net	6	-	65,691
Purchases of property and equipment		(65,754)	(2,606,541)
Proceeds on disposal of equipment	6	47,500	-
Payments for intangible assets		(3,228)	(101,019)
Cash acquired on acquisition of Nextleaf Labs Ltd.	3	-	23,758
Transaction costs on acquisition of Nextleaf Labs Ltd.	3	-	(10,065)
		(21,482)	(2,903,176)
Financing activities			
Lease payments	6	(66,012)	(64,131)
Government loan proceeds	16	-	40,000
Issuance of convertible debenture	8	3,000,000	-
Repayment of convertible debenture	8	(253,393)	-
Transaction costs on convertible debenture	8	(178,932)	-
Issuance of units/common shares, net of share issue costs		316,875	2,984,147
		2,818,538	2,960,016
Decrease in cash		(73,290)	(3,307,312)
Cash, beginning of year		988,675	4,295,987
Cash, end of year		915,385	988,675

Supplemental cash flow information

12

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

Nextleaf Solutions Ltd.

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

For the years ended September 30, 2021 and September 30, 2020

	Common shares #	Share capital \$	Reserves \$	Deficit \$	Total \$
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 - acquisition of Nextleaf Labs Ltd.	1,000,000	285,000	-	-	285,000
Shares issued - intangible assets	937,500	300,000	-	-	300,000
Shares issued - Employee Equity Participation Plan	244,444	67,585	-	-	67,585
Warrants issued - debt settlement	-	-	24,500	-	24,500
Share-based payments	-	-	897,568	-	897,568
Loss and comprehensive loss for the year	-	-	-	(5,953,616)	(5,953,616)
September 30, 2020	120,505,726	20,958,363	4,012,754	(17,708,730)	7,262,387
September 30, 2020	120,505,726	20,958,363	4,012,754	(17,708,730)	7,262,387
Exercise of warrants	1,004,250	266,125	-	-	266,125
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 - services	2,061,467	464,389	-	-	464,389
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	-	-	430,279	-	430,279
Loss and comprehensive loss for the year	-	-	-	(5,385,353)	(5,385,353)
September 30, 2021	125,318,208	22,341,574	4,085,276	(22,999,597)	3,427,253

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

Nextleaf Solutions Ltd.

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

For the years ended September 30, 2021 and September 30, 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. The Company has taken various measures to prioritize the health and safety of its employees, customers and partners, including restricted work travel and site access; improved safety and hygiene; and the requirement of nonessential staff members to work remotely. As a manufacturer of bulk products which are utilized in the production of consumable and medicinal products, the Company maintains robust quality standards with strict hygiene practices and mandated personal protective equipment. The Company has received various Government subsidies to assist 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 year ended September 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 \$850,231 (Note 16).

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

As at September 30, 2021, the Company had a working capital deficiency of \$1,446,243 (see Note 19 for details of a financing that was subsequently completed for gross proceeds of approximately \$3,200,000). 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 accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements have been prepared on an historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. All amounts in these financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2021 and September 30, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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); (ii) product sales to retailers; and (iii) 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.

Product sales revenue:

Product sales revenue earned in relation to distribution of THC vapes and distilled oils 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) delivery of the product has occurred; and (ii) when the transaction price can be reliably measured. 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 material expectation 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") (Note 15). 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 year ended September 30, 2021, the Company had no licensing revenues (2020 - \$455,217) in connection with the Royalty Agreement.

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

For the years ended September 30, 2021 and September 30, 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.

Acquisitions

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

Significant accounting judgments, estimates and assumptions

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

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

Fair value of stock options and finders' warrants

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

Useful lives of property and equipment and intangible assets

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

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

For the years ended September 30, 2021 and September 30, 2020

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

The estimate of the collectability of financial assets is subject to estimation as to the credit-risk and likelihood of default by the counterparty. Refer to the disclosure under "Credit risk" within Note 11 for details.

Non-monetary transactions

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

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

Income taxes

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

Going concern

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

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

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

Acquisitions

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

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

For the years ended September 30, 2021 and September 30, 2020

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

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

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

Extraction equipment	20% declining balance
Furniture and equipment	20% declining balance
Mobile trailer	20% declining balance
Leasehold improvements	Over the term of the lease
Right-of-use asset	Over the term of the lease
Brand	10 years, straight-line method

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

Government assistance

Government assistance consisting of investment tax credits (including SR&ED (Note 16)), and relief payments pursuant to Government programs are recorded separately within profit or loss when they relate to an item(s) of expense. Amounts are recognized when the grant is received, or when there is reasonable assurance that the Company has met the requirements of the approved grant program and there is reasonable assurance that the grant will be received.

Research and development costs

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

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

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

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

For the years ended September 30, 2021 and September 30, 2020

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

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

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

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

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

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

Impairment of non-financial assets

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

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

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

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

For the years ended September 30, 2021 and September 30, 2020

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

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

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

Share-based payment transactions

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

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

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

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

Loss per share

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

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

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

For the years ended September 30, 2021 and September 30, 2020

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

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

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

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

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

Financial instruments

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

Recognition

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

Classification

The Company classifies its financial instruments based on the purpose for which they were acquired, in one of the following categories: FVTPL, amortized cost, FVOCI, and other financial liabilities. The fair value and classification of the Company's financial instruments are detailed in Note 11.

Nextleaf Solutions Ltd.

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

For the years ended September 30, 2021 and September 30, 2020

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

An 'expected credit loss' ("ECL") model applies to financial assets measured at amortized cost. The Company has certain financial assets that are subject to the ECL model (see, "Credit risk" within Note 11).

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as the reporting date, with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

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

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

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.

New accounting policies

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2021. The Company has reviewed these updates and determined that none are applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

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

For the years ended September 30, 2021 and September 30, 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 Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2021 and September 30, 2020

4. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments comprise the following:

	September 30, 2021	September 30, 2020
	\$	\$
Accrued receivables	-	175,055
Accrued Government assistance (Note 16)	161,925	68,160
Prepaid expenses	160,729	150,617
Sales tax recoverable	8,241	88,079
Trade receivables	890,279	274,840
	1,221,174	756,751

As at September 30, 2020, accrued receivables represented an amount due from the party that purchased the Company's mobile trailer (Note 6), as well as a refund of former equipment deposits. Both amounts were collected during the year ended September 30, 2021.

5. INVENTORY

Inventory is comprised of the following:

	September 30, 2021	September 30, 2020
	\$	\$
Raw materials	-	905,773
Production work in progress - distillate	60,530	36,014
Cannabis products	283,164	-
Supplies and hardware	127,630	-
Finished goods - distillate	1,352,742	-
	1,824,066	941,787

Inventory expensed to cost of sales during the year ended September 30, 2021, totaled \$1,232,553 (2020 - \$93,164). Additionally, the Company recognized a provision against inventory within cost of sales totaling \$99,894 during the year ended September 30, 2020, relating to unsaleable finished goods.

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

For the years ended September 30, 2021 and September 30, 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	17,027	48,727	-	-	-	65,754
Disposal	(76,431)	-	-	-	-	(76,431)
September 30, 2021	3,580,180	3,108,837	380,160	203,876	-	7,273,053
Accumulated depreciation						
September 30, 2020	1,360,201	255,049	43,416	75,926	-	1,734,592
Depreciation (1)	451,718	370,339	43,416	25,590	-	891,063
Disposal	(45,777)	-	-	-	-	(45,777)
September 30, 2021	1,766,142	625,388	86,832	101,516	-	2,579,878
Net book value						
September 30, 2020	2,279,383	2,805,061	336,744	127,950	-	5,549,138
September 30, 2021	1,814,038	2,483,449	293,328	102,360	-	4,693,175

(1) Depreciation for the years ended September 30, 2021 and September 30, 2020, is allocated as follows:

	September 30, 2021 \$	September 30, 2020 \$
Cost of sales	847,656	237,779
Inventory	30,048	1,473
Operating expenses	13,359	656,618
	891,063	895,870

During the year ended September 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.

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 included in receivables (accrued receivables) as at September 30, 2020 and collected in full during the year ended September 30, 2021.

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

For the years ended September 30, 2021 and September 30, 2020

6. PROPERTY AND EQUIPMENT (continued)

A continuity of equipment deposits is as follows:

	September 30, 2021	September 30, 2020
	\$	\$
Balance, beginning of year	-	338,148
Deposits refunded (received)	-	(65,691)
Deposits refunded (receivable)	-	(66,815)
Expensed to administrative, net of credit memo	-	(17,791)
Termination of purchase agreement, net	-	266,931
Write-off of equipment deposits	-	(179,449)
Reclassified to other receivables	-	(275,333)
Balance, end of 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 September 30, 2021, the remaining term of the Company’s facility lease was 6.75 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 September 30, 2021 and September 30, 2020 and changes during the years then ended is as follows:

	September 30, 2021	September 30, 2020
	\$	\$
Beginning of period/year	382,925	407,405
Lease payments	(66,012)	(64,131)
Lease interest (finance costs)	37,021	39,651
End of period/year	353,934	382,925
Current portion of lease liability	35,300	28,991
Non-current portion of lease liability	318,634	353,934
	353,934	382,925
Maturity analysis - contractual undiscounted cash flows		
Less than one year	69,120	66,012
One to five years	290,138	284,544
Over five years	134,506	209,220
	493,764	559,776

During the year ended September 30, 2021, the Company incurred \$35,095 (2020 - \$32,107) in variable lease payments allocated between cost of sales, and rent expense (administrative expenses) that were not included within the measurement of the lease liability.

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

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

For the years ended September 30, 2021 and September 30, 2020

7. INTANGIBLE ASSETS

A continuity of intangible assets is as follows:

	Nano emulsion technology \$	Issued patents \$	Licences (Note 3) \$	Brand \$	Total \$
Cost					
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
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	-	3,228	-	110,000	113,228
September 30, 2021	626,000	40,352	270,325	110,000	1,046,677
Accumulated amortization					
September 30, 2020	207,523	2,963	5,978	-	216,464
Amortization	308,751	1,993	34,016	4,249	349,009
September 30, 2021	516,274	4,956	39,994	4,249	565,473
Net book value					
September 30, 2020	418,477	34,161	264,347	-	716,985
September 30, 2021	109,726	35,396	230,331	105,751	481,204

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.

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

For the years ended September 30, 2021 and September 30, 2020

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. During the year ended September 30, 2021, the Company made the first scheduled payment of \$253,393.

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:

	Liability	Deferred	Total
	\$	financing cost	\$
	\$	\$	\$
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	-
Repayments	(253,393)	-	(253,393)
Accretion/interest (expense) income	444,355	(99,908)	344,447
Balance, September 30, 2021	2,652,030	200,092	2,852,122
Liabilities:			
Current portion - convertible debenture	2,652,030	200,092	2,852,122
Long term portion - convertible debenture	-	-	-
Balance, September 30, 2021	2,652,030	200,092	2,852,122

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2021 and September 30, 2020

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 year ended September 30, 2021:

- Between December 2020 and August 2021, the Company issued 2,061,467 common shares at a fair value of \$464,389 (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 August 2021, the Company issued 1,004,250 common shares on the exercise of warrants pursuant to the warrant exercise incentive program for proceeds of \$266,126 (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 year ended September 30, 2020:

- On February 6, 2020, the Company issued 937,500 common shares with an aggregate fair value of \$300,000 (\$0.32 per share) for the acquisition of the nano emulsion technology (Note 7).
- Between April and to September 2020, the Company issued 244,444 common shares pursuant to the Employee Equity Participation Plan (details below) for non-cash consideration at an aggregate fair value of \$67,585. The common shares were issued in lieu of salaries and the fair value was recorded as wages and salaries expense and credited to share capital.
- On May 28, 2020, the Company completed a non-brokered private placement of units comprising two tranches for the aggregate issuance of 10,200,738 Units at a price of \$0.30 per unit for gross proceeds of \$3,060,221. Each unit 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.
- On July 29, 2020, the Company issued 1,000,000 common shares with an aggregate fair value of \$285,000 (\$0.285 per share) for the acquisition of Nextleaf Labs Ltd. (Note 3).

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

For the years ended September 30, 2021 and September 30, 2020

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 September 30, 2021, 5,367,655 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 September 30, 2021, 244,444 common shares of the Company (September 30, 2020 – 244,444) have been issued to non-executive employees under the Plan.

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.

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2021 and September 30, 2020

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 September 30, 2021 and September 30, 2020 and changes during the years then ended is as follows:

	Year ended September 30, 2021		Year ended September 30, 2020	
	Options #	Weighted average exercise price \$	Options #	Weighted average exercise price \$
Options outstanding, beginning of year	14,439,287	0.36	13,989,287	0.35
Granted	2,230,000	0.31	450,000	0.50
Exercised	(145,000)	0.35	-	-
Cancelled	(360,000)	0.35	-	-
Options outstanding, end of year	16,164,287	0.35	14,439,287	0.36

As at September 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	0.58
(1)	13,220,000	13,220,000	0.35	March 15, 2024	2.46
	150,000	150,000	0.50	July 8, 2024	2.77
	300,000	300,000	0.50	October 15, 2024	3.04
	150,000	150,000	0.50	October 16, 2024	3.05
	250,000	250,000	0.25	December 10, 2025	4.20
	630,000	-	0.35	January 13, 2026	4.29
	560,000	560,000	0.35	February 15, 2026	4.38
	790,000	790,000	0.275	August 4, 2026	4.85
	16,164,287	15,534,287	0.35		2.75

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

During the year ended September 30, 2021, the Company granted 2,230,000 stock options to non-executive employees, consultants, and non-executive independent directors of the Company. The options are exercisable between \$0.25 and \$0.35 each until December 10, 2025, January 13, 2026, February 15, 2026 and August 4, 2026. 1,300,000 stock options vested immediately, and the remainder have varying vesting terms.

During the year ended September 30, 2020, the Company granted an aggregate 450,000 stock options to an employee, and a Director of the Company. The options are exercisable between \$0.27 and \$0.29 each until October 15, 2021 or October 16, 2021.

During the year ended September 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.

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

For the years ended September 30, 2021 and September 30, 2020

9. SHAREHOLDERS' EQUITY (continued)

The Company recorded the fair value of the stock options granted during the years ended September 30, 2021 and September 30, 2020 using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility, determined using data for the period from the Company's public listing to the grant date when such period is less than the expected life of the stock options, otherwise the Company uses historical data for a period equal to the expected life of the stock options. The fair values were determined using the following weighted average assumptions:

	September 30, 2021	September 30, 2020
Risk-free interest rate	0.60%	1.57%
Expected life of options (years)	5.00	5.00
Historical volatility	100%	100%
Dividend rate	0%	0%

Total share-based payment expense for the year ended September 30, 2021 was \$430,279 (2020 – \$897,568) 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 September 30, 2021 and September 30, 2020 and changes during the years then ended is as follows:

	Year ended September 30, 2021		Year ended September 30, 2020	
	Warrants #	Weighted average exercise price \$	Warrants #	Weighted average exercise price \$
Warrants outstanding, beginning of 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	1,004,250	0.35	-	-
Exercised	(1,004,250)	0.265	-	-
Expired	(24,466,055)	0.55	-	-
Warrants outstanding, end of year	18,525,795	0.41	36,116,850	0.63

Upon expiry of warrants during the year ended September 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 where the fair value was initially recognized.

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

For the years ended September 30, 2021 and September 30, 2020

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

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

	Warrants #	Weighted average exercise price \$	Expiry Date	Weighted average remaining life (years)
(1)	250,000	0.40	November 28, 2021	0.16
	6,666,667	0.50	May 21, 2022	0.64
	66,933	0.30	May 21, 2022	0.64
	3,534,071	0.50	May 28, 2022	0.66
	128,874	0.30	May 28, 2022	0.66
(2)	1,004,250	0.35	July 15, 2022	0.79
	6,875,000	0.288	March 31, 2024	2.50
	18,525,795	0.41		1.34

(1) Warrants subsequently expired unexercised.

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

Warrant exercise incentive program

During the year ended September 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 expense recognized on modification of the Warrants during the year ended September 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 1,004,250 incentive warrants. The program resulted in proceeds to the Company of \$266,126.

During the year ended September 30, 2020, the Company issued 250,000 warrants with an exercise price of \$0.40 which subsequently expired on November 28, 2021, as consideration for consulting services provided by an arm's length vendor. The Company recorded the fair value of these debt settlement warrants using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility. The fair values were determined using the following weighted average assumptions:

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

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

For the years ended September 30, 2021 and September 30, 2020

9. 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 \$	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	897,568	-	897,568
September 30, 2020	3,647,910	364,844	4,012,754
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	430,279	-	430,279
September 30, 2021	3,989,946	95,330	4,085,276

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 years ended September 30, 2021 and September 30, 2020 is as follows:

	September 30, 2021 \$	September 30, 2020 \$
Directors' fees	61,800	63,850
Management fees	442,900	469,100
Share-based payments	121,351	546,342
	626,051	1,079,292

Related party balances

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

	September 30, 2021 \$	September 30, 2020 \$
Balances included in accounts payable and accrued liabilities:		
Management fees	369,500	206,251
Directors' fees	85,540	36,000
Balances included in receivables and prepayments:		
Prepaid management fees	-	38,900

Nextleaf Solutions Ltd.

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended September 30, 2021 and September 30, 2020

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

Financial assets:	Classification:	Subsequent measurement:
Cash	FVTPL	Fair value
Accrued Government assistance	Amortized cost	Amortized cost
Trade receivables	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. The carrying values of the Company's accrued government assistance, trade receivables, deposits, accounts payable and accrued liabilities, and government loan all approximate their fair values due to their short-term nature. The carrying value of the Company's convertible debenture, and lease liability approximates fair value as it bears a rate of interest commensurate with market rates.

Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. During the year ended September 30, 2021, the Company's cannabis concentrate sales (sale of bulk distillate) and product sales were generated from multiple customers (2020 – one customer for cannabis concentrate sales, and one customer for licensing revenue).

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. As at September 30, 2021, credit risk for the Company arises from cash, receivables, and deposits. The carrying amount of these financial assets represents the maximum credit exposure as at September 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 September 30, 2021, the Company's receivables are current, and management considers the credit risk to be low.

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

For the years ended September 30, 2021 and September 30, 2020

11. FINANCIAL INSTRUMENTS (continued)Impairment of financial assets

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

- Trade receivables; 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 trade 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, trade receivables, and deposits are grouped by debtor, and each debtor's circumstances are reviewed. The expected loss amount, if any, is based on historical payment profiles, and the corresponding historical credit losses experienced within this period for the debtors.

As at September 30, 2021, the Company did not have any loss allowances since it had recognized loss provisions including: (i) \$99,534 on trade receivables relating to a single debtor, and \$620,266 was recognized on other receivables in relation to another debtor resulting in an accumulated provision on other receivables of \$775,333 as at September 30, 2021 (September 30, 2020 - \$181,602) (Refer to Note 17 for details of other receivables).

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 Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2021 and September 30, 2020

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 September 30, 2021, the Company had a working capital deficiency of \$1,446,243. Refer to going concern considerations disclosed in Note 1.

Market risk

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

(i) Currency risk

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

As at September 30, 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 year by approximately \$2,600 (2020 - \$4,300).

(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 years ended September 30, 2021 and September 30, 2020 as follows:

	September 30, 2021	September 30, 2020
	\$	\$
Non-cash investing activities:		
Purchases of property and equipment in accounts payable and accrued liabilities	107,560	339,216
Recognition of right-of-use asset in property and equipment	-	380,160
Refund of equipment deposits in receivables	-	66,815
Proceeds on disposal of equipment included in receivables	-	108,240
Fair value of common shares issued for acquisition of intangible assets	110,000	300,000
Fair value of common shares issued for acquisition of Nextleaf Labs Ltd.	-	285,000
Non-cash financing activities:		
Shares issued in settlement of accounts payable	168,676	-
Shares issued for convertible debenture transaction costs	60,000	-
Fair value of finders' warrants/units issued	-	34,200

During the years ended September 30, 2021 and September 30, 2020, no amounts were paid for interest or income tax expenses.

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

For the years ended September 30, 2021 and September 30, 2020

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 year ended September 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 September 30, 2021 and September 30, 2020 and changes during the years then ended is as follows:

	September 30, 2021	September 30, 2020
	\$	\$
Balance, beginning of 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)
Loss provision - bad debt	(200,000)	-
Reclassification to Other receivables (Note 17)	-	(526,535)
Balance, end of year	-	200,000
Current portion	-	-
Non-current portion	-	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 – Licensee (Note 17):

During the year ended September 30, 2020, the Company provided \$200,000 as a working capital advance to the Licensee in connection with an underlying Royalty Agreement (see "Revenue recognition" in Note 2). The advance is non-interest bearing and must be repaid if the Royalty Agreement is terminated within five years of its effective date.

As at September 30, 2021, the Company was owed \$200,000 for which a provision was recognized in full during the year then ended thereby reducing the carrying value to \$nil as at September 30, 2021.

Nextleaf Solutions Ltd.

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

For the years ended September 30, 2021 and September 30, 2020

16. GOVERNMENT ASSISTANCE

During the year ended September 30, 2021, the Company accrued (Note 4) or received \$850,231 (2020 - \$438,197) in government assistance proceeds for CEWS, CERS, and SR&ED in aggregate.

Canada Emergency Wage Subsidy ("CEWS") and Canada Emergency Rent Subsidy ("CERS")

During the years ended September 30, 2021 and 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, 2021, the Company accrued or received CEWS and CERS subsidies of \$850,231 (2020 - \$381,059 CEWS subsidies only).

Scientific Research and Experimental Development ("SR&ED")

During the year ended September 30, 2020, the Company filed and received approval of its SR&ED refund application for its fiscal 2019 expenditures. Accordingly, the Company received a refund of \$57,138 during the year then ended.

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 partially during the year ended September 30, 2020 and the remainder in full as at September 30, 2021. The provision includes a full write-off of accrued interest on the loan (\$26,535), plus an accumulated provision through to September 30, 2021, of \$775,333 on the loan principal and the equipment deposit, as detailed in the table below. Of the total provision applied, \$620,266 was recognized during the year ended September 30, 2021 (2020 - \$181,602).

As at September 30, 2021, the carrying value of the amount owed from the equipment supplier was \$nil after recognition of loss provisions for the balances in full (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 have not negotiated terms for the repayment to the Company of principal and interest on the loan, and the refund of equipment deposits. 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 Consolidated Financial Statements****(Expressed in Canadian Dollars)**

For the years ended September 30, 2021 and September 30, 2020

17. OTHER RECEIVABLES AND CONTINGENCY (continued)

Other receivables comprise the following:

	September 30, 2021	September 30, 2020
	\$	\$
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	(400,000)	(100,000)
Accumulated loss provision - allowance on equipment deposit	(220,266)	(55,067)
Balance, end of period/year	-	620,266

18. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the years ended September 30, 2021, and September 30, 2020, is as follows:

	September 30, 2021	September 30, 2020
	\$	\$
Loss for the year	(5,385,353)	(5,953,616)
Expected income tax (recovery)	(1,454,000)	(1,607,000)
Change in tax resulting from:		
Permanent differences	232,000	271,000
Change in recognized deductible temporary differences and other	1,177,000	1,533,000
Share issue cost	(65,000)	(21,000)
Adjustment to prior year provision versus statutory tax returns	110,000	(176,000)
Total income tax expense	-	-

The Company's unused temporary differences, and unused tax losses that have not been included on the statements of financial position as at September 30, 2021, and September 30, 2020, are as follows:

	September 30, 2021		September 30, 2020	
	\$	Expiry Date Range	\$	Expiry Date Range
Equipment	3,601,000	No expiry	2,784,000	No expiry
Share issue costs	223,000	2040 to 2045	165,000	2040 to 2044
Provision on receivable	-	No expiry	155,000	No expiry
Intangible assets	303,000	No expiry	(46,000)	No expiry
Available capital losses	477,000	No expiry	77,000	No expiry
Non-capital loss carry forwards	12,963,000	2037 to 2041	10,571,000	2037 to 2040

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

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

For the years ended September 30, 2021 and September 30, 2020

19. SUBSEQUENT EVENTS

- (a) On November 23, 2021, the Company filed a short form base shelf prospectus relating to the offering for sale of equity securities of the Company for a 25-month period, with a total offering price of up to \$20,000,000.
- (b) On December 15, 2021, the Company filed a prospectus supplement for a public offering of up to 15,000,000 units at \$0.20 each (the "Units") for gross proceeds of up to \$3,000,000. Each Unit comprises one common share and one common share purchase warrant. Each warrant will be exercisable to acquire one common share at an exercise price of \$0.275 per common share for a period of 24 months following closing of the Offering. The prospectus supplement is filed in relation to the Company's short form base shelf prospectus dated November 23, 2021 (as discussed above).
- (c) On December 22, 2021, the Company completed a short-form prospectus financing consisting of the issuance of 15,844,208 Units at a price of \$0.20 per Unit for gross proceeds of \$3,168,842 (\$2,985,007 net proceeds after deducting cash underwriters' commission and expenses).

An agents' cash commission totalling \$169,901 was paid upon closing of the offering, plus agents' legal fees and expenses of \$127,935. Additionally, the Company issued 849,507 brokers' warrants exercisable at \$0.20 until December 22, 2023 and issued 500,000 common shares a price per share of \$0.20 as an agent's corporate finance fee.