Nextleaf Solutions Ltd.

Condensed Interim Consolidated Financial Statements
For the three months ended
December 31, 2022

Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Nextleaf Solutions Ltd. (“the Company”) for the three months ended December 31, 2022 and December 31, 2021, have been prepared by the management of the Company and approved by the Company’s Audit Committee and the Company’s Board of Directors.

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

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

Nextleaf Solutions Ltd.

Condensed Interim Consolidated Statements of Financial Position

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

As at December 31, 2022 and September 30, 2022

	Note	**December 31, 2022 $**	September 30, 2022 $
Assets			
Current assets			
Cash		364,763	377,716
Receivables and prepayments	3	983,337	864,280
Inventory	4	1,354,053	1,538,190
		2,702,153	2,780,186
Non-current assets			
Deposits		150,273	147,273
Property and equipment	5	3,720,872	3,900,184
Intangible assets	6	312,665	324,431
		4,183,810	4,371,888
Total assets		**6,885,963**	7,152,074
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	3,016,144	2,774,314
Customer deposits		55,774	-
Lease liability - current	5	41,700	40,315
Convertible debenture	7	960,910	1,003,910
		4,074,528	3,818,539
Non-current liabilities			
Lease liability	5	267,232	278,319
Government loan	14	40,000	40,000
		307,232	318,319
Total liabilities		**4,381,760**	4,136,858
Shareholders' equity			
Share capital	8	25,378,449	25,330,449
Reserves	8	4,145,740	4,145,740
Deficit		(27,019,986)	(26,460,973)
Total shareholders' equity		**2,504,203**	3,015,216
Total liabilities and shareholders' equity		**6,885,963**	7,152,074
Nature of operations and going concern	1		
Other receivables and contingency	15		
Subsequent events	16		

Approved on behalf of the Board of Directors on March 1, 2023:

"Paul Pedersen" **Director**   *"Kevin Keagan"* **Director**

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

Nextleaf Solutions Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the three months ended December 31, 2022 and December 31, 2021

	Note	**December 31, 2022 $**	December 31, 2021 $
Revenue	10	**1,427,796**	1,386,131
Excise taxes		**(240,318)**	(236,784)
Net revenue		**1,187,478**	1,149,347
Cost of sales		**1,162,263**	805,928
Gross profit (loss)		**25,215**	343,419
Expenses			
Accretion/interest on convertible debenture	7	17,679	252,953
Administrative expenses		116,680	81,913
Amortization	6	11,766	90,012
Depreciation	5	3,558	3,340
Finance costs	5	7,859	8,778
Investor relations and marketing		50,816	228,123
Professional fees and consulting	9	62,285	258,155
Research and operational supplies		6,724	15,947
Salaries and fees, net	9,14	201,861	346,572
		(479,228)	(1,285,793)
Convertible note financing fee	7	(105,000)	-
Government assistance	14	-	22,473
		(105,000)	22,473
Loss and comprehensive loss for the period		**(559,013)**	(919,901)
Loss per share			
Weighted average number of common shares outstanding:			
Basic #		**143,470,651**	126,917,098
Diluted #		**143,470,651**	126,917,098
Basic loss per share		**(0.00)**	(0.01)
Diluted loss per share		**(0.00)**	(0.01)

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

Nextleaf Solutions Ltd.

Condensed Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the three months ended December 31, 2022 and December 31, 2021

	Note	December 31, 2022 $	December 31, 2021 $
Operating activities			
Loss for the period		(559,013)	(919,901)
Adjustments for:			
Accretion/interest on convertible debenture		17,679	252,953
Amortization		11,766	90,012
Depreciation	5	149,547	150,943
Finance costs		7,859	8,778
Convertible note financing fee		105,000	-
Non-cash working capital items:			
Receivables and prepayments		(119,057)	163,177
Inventory		213,902	71,771
Deposits		(3,000)	(25,292)
Accounts payable and accrued liabilities		241,830	50,894
Customer deposits		55,774	-
		122,287	(156,665)
Investing activities			
Purchases of property and equipment		-	(108,831)
		-	(108,831)
Financing activities			
Lease payments	5	(17,561)	(17,178)
Repayment of convertible debenture	7	(117,679)	(1,647,340)
Issuance of units/common shares, net of share issue costs	8	-	2,832,671
		(135,240)	1,168,153
Change in cash		**(12,953)**	902,657
Cash, beginning of period		**377,716**	915,385
Cash, end of period		**364,763**	1,818,042
Supplemental cash flow information	11		

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

Nextleaf Solutions Ltd.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the three months ended December 31, 2022 and December 31, 2021

	Common shares \#	Share capital $	Reserves $	Deficit $	Total $
September 30, 2021	125,318,208	22,341,574	4,085,276	(22,999,597)	3,427,253
Units issued - prospectus financing	15,844,208	3,168,842	-	-	3,168,842
Shares issued - corporate finance fee	500,000	-	-	-	-
Share issue costs - cash	-	(336,171)	-	-	(336,171)
Share issue costs - brokers' warrants	-	(89,600)	89,600	-	-
Re-allocated on expiry of warrants	-	-	(24,487)	24,487	-
Loss and comprehensive loss for the period	-	-	-	(919,901)	(919,901)
December 31, 2021	141,662,416	25,084,645	4,150,389	(23,895,011)	5,340,023
September 30, 2022	143,392,390	25,330,449	4,145,740	(26,460,973)	3,015,216
Shares issued - conversion of convertible note	600,000	48,000	-	-	48,000
Loss and comprehensive loss for the period	-	-	-	(559,013)	(559,013)
December 31, 2022	**143,992,390**	**25,378,449**	**4,145,740**	**(27,019,986)**	**2,504,203**

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

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 6). 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”.

The Company continues to manage and respond to the COVID-19 pandemic within its internal policies, along with recommendations of health authorities and local and national requirements. The Company has implemented preventative measures to ensure the safety of its workforce and other key stakeholders.

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

As at December 31, 2022, the Company had a working capital deficit of $1,372,375 (September 30, 2022 – $1,038,353). The Company has been incurring losses and generating negative cash flows since inception. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will generate sufficient revenue and positive cash flows from operations. The continuance of operations is dependent on the Company commercializing its patents, generating profitable and cash flow positive commercial operations, and continuing to obtain financing on acceptable terms. These conditions may cast significant doubt about the Company’s ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company‘s annual audited consolidated financial statements for the year ended September 30, 2022, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

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

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%	Licenced processor

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.

Significant accounting policies

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its consolidated financial statements for the year ended September 30, 2023. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited consolidated financial statements.

Standards not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2023. 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. Additionally, the Company did not adopt any new accounting standards during the period.

(Expressed in Canadian Dollars)

3. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments comprise the following:

	December 31, 2022 $	September 30, 2022 $
Prepaid expenses	30,552	25,733
Sales tax recoverable	22,704	20,452
Trade receivables	930,081	818,095
	983,337	864,280

4. INVENTORY

Inventory is comprised of the following:

	December 31, 2022 $	September 30, 2022 $
Production work in progress - distillate	-	8,105
Cannabis products	424,359	457,104
Supplies and hardware	230,026	186,981
Finished goods - distillate	699,668	886,000
	1,354,053	1,538,190

Inventory expensed to cost of sales during the three months ended December 31, 2022, totaled $740,077 (2021 - $767,453).

(Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

	Extraction and manufacturing equipment $	Leasehold improvements $	Right-of-use asset $	Furniture and equipment $	Total $
Cost					
September 30, 2021	3,580,180	3,108,837	380,160	203,876	7,273,053
Additions	1,271	-	-	-	1,271
September 30, 2022	3,581,451	3,108,837	380,160	203,876	7,274,324
Accumulated depreciation					
September 30, 2021	1,766,142	625,388	86,832	101,516	2,579,878
Depreciation (1)	363,464	366,911	43,416	20,471	794,262
September 30, 2022	2,129,606	992,299	130,248	121,987	3,374,140
Cost					
September 30, 2022	3,581,451	3,108,837	380,160	203,876	7,274,324
Additions	-	-	-	-	-
December 31, 2022	**3,581,451**	**3,108,837**	**380,160**	**203,876**	**7,274,324**
Accumulated depreciation					
September 30, 2022	2,129,606	992,299	130,248	121,987	3,374,140
Depreciation (1)	72,592	91,771	10,854	4,095	179,312
December 31, 2022	**2,202,198**	**1,084,070**	**141,102**	**126,082**	**3,553,452**
Net book value					
September 30, 2022	1,451,845	2,116,538	249,912	81,889	3,900,184
December 31, 2022	**1,379,253**	**2,024,767**	**239,058**	**77,794**	**3,720,872**

(1) Depreciation for the three months ended December 31, 2022 and December 31, 2021, is allocated as follows:

	December 31, 2022 $	December 31, 2021 $
Cost of sales	168,458	223,001
Inventory	7,296	-
Operating expenses	3,558	3,340
	179,312	226,341

(Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT (continued)

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 December 31, 2022, the remaining term of the Company's facility lease was 5.50 years (September 30, 2022 – 5.75 years) which includes the five-year extension option.

A reconciliation of the carrying amount of the lease liability as at December 31, 2022 and September 30, 2022 and changes during the period/year then ended is as follows:

	December 31, 2022 $	September 30, 2022 $
Beginning of period/year	318,634	353,934
Lease payments	(17,561)	(69,120)
Lease interest (finance costs)	7,859	33,820
End of period/year	**308,932**	318,634
Current portion of lease liability	**41,700**	40,315
Non-current portion of lease liability	**267,232**	278,319
	308,932	318,634
Maturity analysis - contractual undiscounted cash flows		
Less than one year	70,731	70,464
One to five years	297,461	295,981
Over five years	38,866	58,219
	407,058	424,664

During the three months ended December 31, 2022, the Company incurred $8,060 (2021 - $7,161) 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 December 31, 2022 and September 30, 2022, the Company did not have any low value leases or short-term leases.

(Expressed in Canadian Dollars)

6. INTANGIBLE ASSETS

A continuity of intangible assets is as follows:

	Nano emulsion technology $	Issued patents $	Licences $	Brand $	Total $
Cost					
September 30, 2021	626,000	40,352	270,325	110,000	1,046,677
September 30, 2022	626,000	40,352	270,325	110,000	1,046,677
Accumulated amortization					
September 30, 2021	516,274	4,956	39,994	4,249	565,473
Amortization	109,726	2,017	34,030	11,000	156,773
September 30, 2022	626,000	6,973	74,024	15,249	722,246
Cost					
September 30, 2022	626,000	40,352	270,325	110,000	1,046,677
December 31, 2022	**626,000**	**40,352**	**270,325**	**110,000**	**1,046,677**
Accumulated amortization					
September 30, 2022	626,000	6,973	74,024	15,249	722,246
Amortization	-	505	8,511	2,750	11,766
December 31, 2022	**626,000**	**7,478**	**82,535**	**17,999**	**734,012**
Net book value					
September 30, 2022	-	33,379	196,301	94,751	324,431
December 31, 2022	**-**	**32,874**	**187,790**	**92,001**	**312,665**

7. CONVERTIBLE DEBENTURE

Original terms on issuance:

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 initial principal value of the Note was $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. See heading “Amendments to the Note” below for three amendments executed on the Note during the year ended September 30, 2022, and a fourth amendment executed during the three months ended December 31, 2022.

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.

In 2021, transaction costs of $238,932 were incurred in connection with the original 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 settled through the issuance of 250,000 common shares at a fair value of $0.24 each (Note 8).

In connection with the original issuance of the Note, 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. These warrants were replaced during the year ended September 30, 2022, as described below.

(Expressed in Canadian Dollars)

7. CONVERTIBLE DEBENTURE (continued)

The Note was 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 the original maturity of September 30, 2022 (deferred to June 1, 2023) and bore interest at a rate of 5.0% per annum. The repayment schedule comprised fourteen (14) monthly cash repayments inclusive of principal and interest ("installments") in the amount of $253,393 each through to September 2022 until the initial principal value of $3,300,000 was to be repaid in full.

Amendments to the Note:

On December 30, 2022, the Note was amended a fourth time (the "Fourth Amendment") (see other amendments below) whereby the maturity date was extended to June 1, 2023, an additional forbearance fee of $75,000 was recognized as an increase to the principal balance of the Note, and the conversion price was amended to $0.055 per share. Additionally, a $30,000 administration fee was added to the Note resulting in an aggregate convertible note financing fee of $105,000 recognized during the three months ended December 31, 2022.

During the year ended September 30, 2022, the Company and the holder executed three amendments on the Note as described below on each of March 31, 2022, May 19, 2022, and September 21, 2022.

The first two amendments to the Note resulted in an aggregate issuance of 1,000,000 warrants to the holder in consideration for deferrals of specific monthly payments. As described in Note 8, the original 1,000,000 warrants were cancelled and replaced during the year ended September 30, 2022, with an equal number of warrants exercisable at $0.08 each, expiring on September 21, 2027. The aggregate incremental fair value of the 1,000,000 warrants issued was $47,700 and was recorded as a convertible note financing fee. See Note 8 for fair value details.

The third amendment to the Note included a forbearance fee of $100,000 recognized as an increase to the principal balance of the Note, and charged as a convertible note financing fee.

The third amendment to the Note during the year ended September 30, 2022, also included a cancellation of the 6,875,000 warrants originally issued and a replacement of an equal number of warrants exercisable at $0.08 each with an expiry of September 21, 2027. There was no value recognized on the cancellation and replacement of the 6,875,000 warrants.

All three amendments to the Note resulted in aggregate $147,700 convertible note financing fee recognized during the year ended September 30, 2022.

Conversions of the Note:

During the three months ended December 31, 2022, the Company issued 600,000 common shares to the Note holder pursuant to conversions of principal totalling $48,000. See Note 16 for additional subsequent conversions.

A reconciliation of the carrying amount of the convertible debenture as at December 31, 2022 and September 30, 2022 and changes during the period/year then ended is as follows:

	Liability $	Deferred financing cost $	Total $
Balance, September 30, 2021	2,652,030	200,092	2,852,122
Repayments	(2,390,197)	-	(2,390,197)
Accretion/interest expense (income)	642,077	(200,092)	441,985
Forbearance fee	100,000	-	100,000
Balance, September 30, 2022	1,003,910	-	1,003,910
Balance, September 30, 2022	1,003,910	-	1,003,910
Repayments	(117,679)	-	(117,679)
Conversions to common shares	(48,000)	-	(48,000)
Interest expense	17,679	-	17,679
Debt financing fee	105,000	-	105,000
Balance, December 31, 2022	**960,910**	**-**	**960,910**

8. SHAREHOLDERS' EQUITY

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

Issued and outstanding

Transactions for the issue of share capital during the three months ended December 31, 2022:

- The Company issued 600,000 common shares to the holder of the Note (Note 7), in respect of the conversion of $48,000 of the principal value of the Note.

Transactions for the issue of share capital during the three months ended December 31, 2021:

- 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 ($2,832,671, net proceeds). Each unit consisted of one common share and one share purchase warrant, with each warrant being exercisable at $0.275 each until December 22, 2023. No value was allocated to the warrant component of the unit.

  An agents' cash commission totalling $183,835 was paid upon closing of the offering, plus agents' legal fees and expenses of $89,380, and other legal fees of $62,956. Additionally, the Company issued 849,504 brokers' warrants exercisable at $0.20 each until December 22, 2023 at a fair value of $89,600 (details below) and issued 500,000 common shares at a fair value of $100,000 ($0.20 per share) as an agent's corporate finance fee (share issue cost) resulting in a net $nil impact to share capital.

Employee Equity Participation Plan

In April 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 December 31, 2022, 244,444 common shares of the Company (September 30, 2022 – 244,444) have been issued to non-executive employees under the Plan.

There were no issuances of shares under the Plan during the three months ended December 31, 2022 and December 31, 2021.

(Expressed in Canadian Dollars)

8. SHAREHOLDERS' EQUITY (continued)

Shareholder Rights Plan

In July 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 was for three years, subject to re-approval by the shareholders of the Company at the 2022 Annual Meeting (not renewed). The Company's Board of Directors can decide to approve a "tactical" Rights Plan as it did during 2019, which can be used for up to six months before requiring shareholder approval.

The Rights become exercisable only if a person acquires 20% or more of the common shares of the Company without complying with the "Permitted Bid" provisions in the Plan, other prescribed exemptions, or without the approval of the Board of Directors. Should such an acquisition occur of the Company's common shares, rights holders can purchase common shares of the Company at half the prevailing market price as defined in the Plan at the time the rights become exercisable. Under the Plan, a permitted bid must be made to all shareholders for all shares of the Company and must be open for acceptance for a minimum of 105 days.

Stock options

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

A summary of the status of the Company's stock options as at December 31, 2022 and September 30, 2022 and changes during the period/year then ended is as follows:

	Period ended December 31, 2022		Year ended September 30, 2022	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of period/year	16,120,000	0.35	16,164,287	0.35
Granted	-	-	70,000	0.18
Exercised	-	-	-	-
Expired	-	-	(114,287)	0.35
Options outstanding, end of period/year	**16,120,000**	**0.35**	16,120,000	0.35

(Expressed in Canadian Dollars)

8. SHAREHOLDERS' EQUITY (continued)

Stock options (continued)

As at December 31, 2022, 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)
(1)	13,220,000	13,220,000	0.35	March 15, 2024	1.21
	150,000	150,000	0.50	July 8, 2024	1.52
	300,000	300,000	0.50	October 15, 2024	1.79
	150,000	150,000	0.50	October 16, 2024	1.79
	250,000	250,000	0.25	December 10, 2025	2.95
	630,000	630,000	0.35	January 13, 2026	3.04
	560,000	560,000	0.35	February 15, 2026	3.13
	790,000	790,000	0.275	August 4, 2026	3.59
	70,000	70,000	0.175	April 19, 2027	4.30
	16,120,000	**16,120,000**	**0.35**		**1.52**

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

During the year ended September 30, 2022, the Company granted 70,000 stock options to non-executive employees of the Company. The options are exercisable at $0.175 each until April 19, 2027 and vested immediately on grant.

There was no share-based payment expense incurred for the three months ended December 31, 2022 and December 31, 2021.

The Company recorded the fair value of the stock options granted during the year ended September 30, 2022 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, 2022
Risk-free interest rate	3.70%
Expected life of options (years)	5.00
Expected volatility	100%
Dividend rate	0%

(Expressed in Canadian Dollars)

8. SHAREHOLDERS' EQUITY (continued)

Warrants

As an incentive to complete private placements, the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to warrants attached to units sold in completed private placements. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model. Additionally, warrants may be issued as an incentive to complete convertible debenture financings which are fair valued using the Black-Scholes option pricing model and allocated to the equity component of the convertible debenture on a relative fair value basis with the equity conversion feature.

A summary of the Company's common share purchase warrants as at December 31, 2022 and September 30, 2022 and changes during the period/year then ended is as follows:

	Period ended December 31, 2022		Year ended September 30, 2022	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period/year	24,568,712	0.21	18,525,795	0.41
Issued - attached to units	-	-	15,844,208	0.28
Issued - brokers' warrants	-	-	849,504	0.20
Issued - convertible note holder (Note 7)	-	-	8,875,000	0.09
Cancelled - convertible note holder (Note 7)	-	-	(7,875,000)	0.270
Expired	-	-	(11,650,795)	0.48
Warrants outstanding, end of period/year	**24,568,712**	**0.21**	24,568,712	0.21

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2022:

Warrants #	Weighted average exercise price $	Expiry Date	Weighted average remaining life (years)
849,504	0.20	December 22, 2023	0.98
15,844,208	0.275	December 22, 2023	0.98
6,875,000	0.08	March 31, 2024	4.73
500,000	0.08	September 21, 2027	4.73
500,000	0.08	September 21, 2027	4.73
24,568,712	**0.21**		**2.18**

During the year ended September 30, 2022, the Company issued 1,000,000 warrants to the holder of the convertible debenture in consideration of the first two amendments to the Note (Note 7). 500,000 warrants were initially issued with an exercise price of $0.162 each and an expiry of April 20, 2025, and another 500,000 warrants were initially issued with an exercise price of $0.138 each and an expiry of May 25, 2025. These warrants were cancelled and replaced with an equal number of warrants exercisable at $0.08 each, expiring on September 21, 2027.

During the three months ended December 31, 2021, upon the expiry of warrants certain of the warrants were originally issued as compensatory warrants and had a fair value recognized within reserves upon issuance. Accordingly, their original fair values of $24,487 was reversed from reserves and credited to deficit.

(Expressed in Canadian Dollars)

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

Warrants (continued)

The brokers' warrants and certain of the warrants issued to the convertible note holder during the three months ended December 31, 2021, were fair valued using the Black-Scholes option pricing model. The fair value is particularly impacted by the Company's stock price volatility and was determined using the following weighted average assumptions:

	December 31, 2021
Risk-free interest rate	1.50%
Expected life of warrants (years)	2.00
Expected volatility	100%
Dividend rate	0%

Reserves

Reserves are comprised of the accumulated fair value of stock options recognized as share-based payments, and the fair value of finders' or brokers' warrants issued on private placements and as other forms of consideration. 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, are exercised, or are cancelled.

	Stock options $	Warrants $	Total $
September 30, 2021	3,989,946	95,330	4,085,276
Warrants issued	-	89,600	89,600
Warrants expired	-	(24,487)	(24,487)
December 31, 2021	3,989,946	160,443	4,150,389
September 30, 2022	3,971,746	173,994	4,145,740
December 31, 2022	**3,971,746**	**173,994**	**4,145,740**

(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS

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

Key management personnel compensation

The remuneration of key management for the three months ended December 31, 2022 and December 31, 2021 is as follows:

	December 31, 2022	December 31, 2021
	$	$
Directors' fees (within professional fees and consulting)	6,000	11,000
Management fees (within salaries and fees)	84,000	108,000
	90,000	119,000

Related party balances

Related party balances as at December 31, 2022 and September 30, 2022 are as follows:

	December 31, 2022	September 30, 2022
	$	$
Balances included in accounts payable and accrued liabilities:		
Directors' fees	39,000	90,150
Management fees	188,800	172,600
	227,800	262,750

10. FINANCIAL INSTRUMENTS

Fair value

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

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

Classification of financial instruments

Financial assets:	Classification:	Subsequent measurement:
Cash	FVTPL	Fair value
Trade receivables (Note 3)	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 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 and revenue from sale of goods

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 three months ended December 31, 2022, the Company's cannabis concentrate sales (sale of bulk distillate) and product sales were generated from multiple customers, with a single customer accounting for approximately 55% of total revenue.

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS (continued)

Economic dependence and revenue from sale of goods (continued)

Revenue from sale of goods and services

The Company disaggregated its revenues from the sale of goods between sales of bulk distillate, branded (Glacial Gold) vape pens, oils, and softgels ("branded extract products"), and private label which includes toll processing and other services. Each type of revenue is produced by a single operating/production division.

	Period ended December 31, 2022				Period ended December 31, 2021			
Revenue stream	Bulk distillate	Branded extract products	Private label	Total	Bulk distillate	Branded extract products	Private label	Total
Wholesale	**274,134**	**951,048**	**202,614**	**1,427,796**	**423,782**	**836,675**	**125,674**	**1,386,131**
British Columbia	27,186	781,647	921	809,754	-	763,017	81,498	844,515
Rest of Canada	246,948	169,401	201,693	618,042	423,782	73,658	44,176	541,616
Total	**274,134**	**951,048**	**202,614**	**1,427,796**	**423,782**	**836,675**	**125,674**	**1,386,131**

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 December 31, 2022, credit risk for the Company arises from cash, trade receivables, and deposits. The carrying amount of these financial assets represents the maximum credit exposure as at December 31, 2022.

Cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk on cash is considered insignificant. As at December 31, 2022, the Company holds certain trade receivables that are aged in excess of 90 days to which management has determined the credit risk to be low.

<u>Impairment of financial assets</u>

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 specific periods for the debtors.

The Company did not recognize any loss provisions during the three months ended December 31, 2022. During the year ended September 30, 2022, the Company recognized a loss provision of $16,659 associated with a single debtor, recorded as loss provision on receivables. Additionally, the Company has previously recognized historical loss provisions on trade receivables relating to a different single debtor, and other receivables in relation to another debtor resulting in an accumulated historical loss provision of $775,333 (Note 15).

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.

10. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company has been successful in raising equity financing in the past, however, there is no assurance that it will be able to do so in the future. As at December 31, 2022, the Company had a working capital deficit of $1,372,375. 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 December 31, 2022, the Company held cash, and accounts payable and accrued liabilities in United States dollars. A 10% change in the exchange rate between the United States dollar and the Canadian dollar, would have impacted loss and comprehensive loss for the period by approximately $3,000 (2021 - $1,000).

(ii) Interest rate risk

The Company is not exposed to interest rate risk because it does not have any assets or liabilities subject to variable rates of interest.

(iii) Price risk

Equity price risk is defined as the potential adverse impact on the Company's results of operations and the ability to obtain financing, due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

11. SUPPLEMENTAL CASH FLOW INFORMATION

The Company incurred non-cash financing activities during the three months ended December 31, 2022 and December 31, 2021 as follows:

	December 31, 2022 **$**	December 31, 2021 $
Non-cash financing activities:		
Shares issued on conversion of convertible note	48,000	-
Forbearance fee recognized within convertible debenture (convertible note financing fee)	105,000	-

During the three months ended December 31, 2022 and December 31, 2021, no amounts were paid for interest or income tax expenses.

12. CAPITAL RISK MANAGEMENT

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

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

There were no changes in the Company's approach to capital management during the three months ended December 31, 2022. The Company is not subject to externally imposed capital requirements.

13. SEGMENTED INFORMATION

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

14. GOVERNMENT ASSISTANCE

National Research Council of Canada's Industrial Research Assistance Program ("NRC-IRAP"):

In October 2022, the Company entered into a Contribution Agreement with NRC-IRAP for non-repayable contributions to the Company for up to $75,000 through to March 31, 2023. Under the terms of the agreement, the contributions from NRC-IRAP are for the reimbursement of up to 80% of certain salaries paid to employees of the Company.

During the three months ended December 31, 2022, the Company received proceeds of $42,042, which were recognized as a reduction to salaries and fees.

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

During 2022 and 2021, 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.

The Company did not receive any Government assistance during the three months ended December 31, 2022. During the three months ended December 31, 2021, the Company accrued or received CEWS and CERS subsidies of $22,473.

Canadian Emergency Business Account ("CEBA")

In 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 which was extended to December 31, 2023, at which time up to a 33% balance forgiveness ($13,200) 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, 2023, 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, 2026. Funds can be used to pay non-deferrable operating expenses including payroll.

15. OTHER RECEIVABLES AND CONTINGENCY

As at December 31, 2022 and September 30, 2022, the Company was owed an aggregate $801,868 from an equipment supplier relating to amounts advanced by the Company as a promissory note (“loan”) in previous years and amounts advanced as deposits for cannabis extraction equipment. As at December 31, 2022 and September 30, 2022, the carrying value of the amount owed from the equipment supplier was $nil after historical recognition of loss provisions for the balances in full.

In December 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 in January 2021 by way of issuing a notice of claim against the equipment supplier. In February 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 approval 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.

16. SUBSEQUENT EVENTS

(a) The Company issued 6,500,000 common shares to the holder of the Note (Note 7), in respect of the conversion of $357,500 of the principal value of the Note.

(b) The Company issued 678,000 common shares in respect of a settlement to accounts payable and accrued liabilities.