Nextleaf Solutions Ltd.

Condensed Interim Consolidated Financial Statements

For the nine months ended

June 30, 2023

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 nine months ended June 30, 2023, have been prepared by 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 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 June 30, 2023 and September 30, 2022

	Note	**June 30, 2023 $**	September 30, 2022 $
Assets			
Current assets			
Cash		700,515	377,716
Receivables and prepayments	3	1,189,408	864,280
Inventory	4	1,774,981	1,538,190
		3,664,904	2,780,186
Non-current assets			
Deposits		91,913	147,273
Property and equipment	5	3,556,719	3,900,184
Intangible assets	6	289,227	324,431
		3,937,859	4,371,888
Total assets		**7,602,763**	7,152,074
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	3,352,222	2,774,314
Lease liability - current	5	62,106	40,315
Convertible debenture	7	-	1,003,910
Government loan		40,000	-
		3,454,328	3,818,539
Non-current liabilities			
Lease liability	5	402,394	278,319
Government loan	14	-	40,000
		402,394	318,319
Total liabilities		**3,856,722**	4,136,858
Shareholders' equity			
Share capital	8	26,225,580	25,330,449
Reserves	8	4,145,740	4,145,740
Deficit		(26,625,279)	(26,460,973)
Total shareholders' equity		**3,746,041**	3,015,216
Total liabilities and shareholders' equity		**7,602,763**	7,152,074
Nature of operations and going concern	1		

Approved on behalf of the Board of Directors on August 29, 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 Income (Loss) and Comprehensive Income (Loss)

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the three and nine months ended June 30, 2023 and June 30, 2022

	Note	Three months ended		Nine months ended	
		June 30, 2023 $	June 30, 2022 $	**June 30, 2023 $**	June 30, 2022 $
Revenue	10	**2,662,626**	1,437,250	**6,667,079**	4,220,842
Excise taxes		**(438,867)**	(234,612)	**(1,081,747)**	(723,545)
Net revenue		**2,223,759**	1,202,638	**5,585,332**	3,497,297
Cost of sales		**1,248,661**	1,314,011	**4,137,004**	2,843,810
Gross profit		**975,098**	(111,373)	**1,448,328**	653,487
Expenses					
Accretion/interest on convertible debenture	7	-	58,608	-	421,537
Administrative expenses		128,596	157,053	243,860	353,097
Amortization	6	11,766	11,761	35,204	144,917
Depreciation	5	3,558	5,845	10,673	12,525
Finance costs	5	7,391	8,350	22,917	25,695
Investor relations and marketing		85,118	141,999	268,098	447,044
Professional fees and consulting	9	38,094	131,939	142,539	595,941
Research and operational supplies		32,030	25,048	90,251	61,848
Salaries and fees, net	9,14	271,605	319,174	717,027	1,111,324
Share-based payments	8,9	-	76,140	-	76,140
		(578,158)	(935,917)	**(1,530,569)**	(3,250,068)
Convertible note financing fee	7	-	-	(105,000)	-
Government assistance	14	-	-	-	22,473
Gain on settlement of accounts payable, net	10	22,935	-	22,935	-
		22,935	-	**(82,065)**	22,473
Income (loss) and comprehensive income (loss) for the period		**419,875**	(1,047,290)	**(164,306)**	(2,574,108)
Earnings (loss) per share					
Weighted average number of common shares outstanding:					
Basic #	8	**158,229,296**	142,371,809	**150,024,769**	136,927,164
Diluted #	8	**158,229,296**	142,371,809	**150,024,769**	136,927,164
Basic earnings (loss) per share	8	**0.00**	(0.01)	**(0.00)**	(0.02)
Diluted earnings (loss) per share	8	**0.00**	(0.01)	**(0.00)**	(0.02)

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

Nextleaf Solutions Ltd.

Condensed Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the nine months ended June 30, 2023 and June 30, 2022

	Note	**June 30, 2023 $**	June 30, 2022 $
Operating activities			
Loss for the period		(164,306)	(2,574,108)
Adjustments for:			
Accretion/interest on convertible debenture		-	421,537
Amortization		35,204	144,917
Depreciation	5	516,218	574,815
Finance costs		22,917	25,695
Share-based payments		-	76,140
Shares issued for services		-	22,500
Convertible note financing fee		105,000	-
Gain on settlement of accounts payable, net		(22,935)	-
Non-cash working capital items:			
Receivables and prepayments		(536,795)	221,677
Inventory		(214,902)	(20,474)
Deposits		55,360	(57,022)
Accounts payable and accrued liabilities		846,410	364,927
Customer deposits		-	(42,500)
		642,171	(841,896)
Investing activities			
Purchases of property and equipment		(18,929)	(108,831)
		(18,929)	(108,831)
Financing activities			
Lease payments	5	(52,764)	(51,534)
Repayment of convertible debenture	7	(247,679)	(2,289,483)
Issuance of units/common shares, net of share issue costs		-	2,832,671
		(300,443)	491,654
Change in cash		**322,799**	(459,073)
Cash, beginning of period		**377,716**	915,385
Cash, end of period		**700,515**	456,312
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 nine months ended June 30, 2023 and June 30, 2022

	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 options	-	-	(25,340)	25,340	
Re-allocated on expiry of warrants	-	34,149	(58,636)	24,487	-
Shares issued - services	166,667	22,500	-	-	22,500
Shares issued on settlement of accounts payable	720,074	97,210	-	-	97,210
Share-based payments	-	-	76,140	-	76,140
Loss and comprehensive loss for the period	-	-	-	(2,574,108)	(2,574,108)
June 30, 2022	142,549,157	25,238,504	4,167,040	(25,523,878)	3,881,666
September 30, 2022	143,392,390	25,330,449	4,145,740	(26,460,973)	3,015,216
Shares issued - conversion of convertible note	15,386,030	861,231	-	-	861,231
Shares issued on settlement of accounts payable	678,000	33,900	-	-	33,900
Loss and comprehensive loss for the period	-	-	-	(164,306)	(164,306)
June 30, 2023	**159,456,420**	**26,225,580**	**4,145,740**	**(26,625,279)**	**3,746,041**

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 June 30, 2023, the Company had working capital of $210,576 (September 30, 2022 – working capital deficiency of $1,038,353). The Company has historically incurred losses and negative cash flows until recent fiscal quarters. 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 consistently generate sufficient revenue and positive cash flows from operations. The continuance of operations is dependent on the Company generating profitable commercial operations and positive cashflows, and continuing to obtain financing on acceptable terms, as necessary. 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.

New accounting standards

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:

	June 30, 2023 **$**	September 30, 2022 $
Prepaid expenses	38,776	25,733
Sales tax recoverable	19,579	20,452
Trade receivables	1,131,053	818,095
	1,189,408	864,280

4. INVENTORY

Inventory is comprised of the following:

	June 30, 2023 **$**	September 30, 2022 $
Production work in progress - distillate	41,551	8,105
Cannabis products	656,437	457,104
Supplies and hardware	460,809	186,981
Finished goods - distillate	616,184	886,000
	1,774,981	1,538,190

Inventory expensed to cost of sales during the nine months ended June 30, 2023, totaled $3,173,429 (2022 - $2,520,158).

(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	13,900	-	175,713	5,029	194,642
June 30, 2023	**3,595,351**	**3,108,837**	**555,873**	**208,905**	**7,468,966**
Accumulated depreciation					
September 30, 2022	2,129,606	992,299	130,248	121,987	3,374,140
Depreciation (1)	218,577	274,306	32,562	12,662	538,107
June 30, 2023	**2,348,183**	**1,266,605**	**162,810**	**134,649**	**3,912,247**
Net book value					
September 30, 2022	1,451,845	2,116,538	249,912	81,889	3,900,184
June 30, 2023	**1,247,168**	**1,842,232**	**393,063**	**74,256**	**3,556,719**

(1) Depreciation for the nine months ended June 30, 2023 and June 30, 2022, is allocated as follows:

	June 30, 2023 $	June 30, 2022 $
Cost of sales	505,545	562,290
Inventory	21,889	20,037
Operating expenses	10,673	12,525
	538,107	594,852

(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 in Coquitlam, BC. The Company has determined that the agreement is a lease contract as defined under IFRS 16 – *Leases* ("IFRS 16"). The Company's initial lease was for the period from July 1, 2018 to June 30, 2023. The Company has entered a lease renewal agreement for the period from July 1, 2023 to June 30, 2028, resulting in a modified lease liability calculated a with discount rate of 13.5% (former lease liability was calculated with a discount rate of 10%).

As at June 30, 2023, the Company adjusted the carrying value of the right-of-use asset and the lease liability in respect of the renewed term commencing July 1, 2023.

A reconciliation of the carrying amount of the lease liability as at June 30, 2023 and September 30, 2022 and changes during the period/year then ended is as follows:

	June 30, 2023 $	September 30, 2022 $
Beginning of period/year	318,634	353,934
Lease payments	(52,764)	(69,120)
Extension of lease	175,713	-
Lease interest (finance costs)	22,917	33,820
End of period/year	**464,500**	318,634
Current portion of lease liability	**62,106**	40,315
Non-current portion of lease liability	**402,394**	278,319
	464,500	318,634
Maturity analysis - contractual undiscounted cash flows		
Less than one year	121,064	70,464
One to five years	520,248	295,981
Over five years	-	58,219
	641,312	424,664

During the nine months ended June 30, 2023, the Company incurred $26,264 (2022 - $18,699) 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 June 30, 2023 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
June 30, 2023	**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	-	1,513	25,441	8,250	35,204
June 30, 2023	**626,000**	**8,486**	**99,465**	**-**	**757,450**
Net book value					
September 30, 2022	-	33,379	196,301	94,751	324,431
June 30, 2023	**-**	**31,866**	**170,860**	**110,000**	**289,227**

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 was credited against interest expense as the balance was amortized over the term of the Note. The Note was secured by a security interest subordinate to all existing and future property undertakings (during the term of the Note) 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 nine months ended June 30, 2023.

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 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 original expiration on March 31, 2024 (replaced, see below). There was no value attributed to the warrants issued as the equity conversion feature of the instrument was determined 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)

Original terms on issuance: (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, matured and settled in full) 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 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 (matured, see above), 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 nine months ended June 30, 2023.

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 during the year ended September 30, 2022. 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 was charged as a convertible note financing fee during the year ended September 30, 2022. The third amendment also included a cancellation of the 6,875,000 warrants originally issued (see above) 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 an aggregate $147,700 convertible note financing fee recognized during the year ended September 30, 2022.

Conversions of the Note:

During the nine months ended June 30, 2023, the Company issued 15,386,030 common shares to the Note holder pursuant to conversions of principal totalling $861,231, for full and final settlement of the Note prior to its June 1, 2023 maturity date.

A reconciliation of the carrying amount of the convertible debenture as at June 30, 2023 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
Forbearance fee	100,000	-	100,000
Repayments	(2,390,197)	-	(2,390,197)
Accretion/interest expense (income)	642,077	(200,092)	441,985
Balance, September 30, 2022	1,003,910	-	1,003,910
Balance, September 30, 2022	1,003,910	-	1,003,910
Debt financing fee	105,000	-	105,000
Repayments	(247,679)	-	(247,679)
Conversions to common shares	(861,231)	-	(861,231)
Balance, June 30, 2023	**-**	**-**	**-**

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 nine months ended June 30, 2023:

- Between January and May 2023, the Company issued 15,386,030 common shares to the holder of the Note (Note 7), in respect of the conversion of $861,231 of the principal value of the Note, for full and final settlement.
- In February 2023, the Company issued 678,000 common shares at a fair value of $33,900 to a consultant of the Company in settlement of accounts payable. There was no gain or loss recognized on settlement of the accounts payable.

Transactions for the issue of share capital during the nine months ended June 30, 2022:

- 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.
- On April 19, 2022, the Company issued 866,741 common shares at an aggregate fair value of $119,710 ($0.135 each) either for services or in settlement of accounts payable, of which 166,667 common shares were issued to consultants of the Company for services rendered, and 720,074 common shares were issued in settlement of accounts payable. There was no gain or loss recognized in settlement of the accounts payable.

Employee Equity Participation Plan

In 2020, the Company implemented an Employee Equity Participation Plan (the "Plan"). The Plan is fully voluntary and permits non-executive employees to receive common shares of the Company in lieu of a portion of an employee's cash compensation. As at June 30, 2023, 244,444 common shares of the Company (September 30, 2022 – 244,444) have been issued to non-executive employees under the Plan in previous years.

There were no issuances of shares under the Plan during the nine months ended June 30, 2023 and June 30, 2022.

(Expressed in Canadian Dollars)

8. SHAREHOLDERS' EQUITY (continued)

Shareholder Rights Plan

In 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 at such time. 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 June 30, 2023 and September 30, 2022 and changes during the period/year then ended is as follows:

	Period ended June 30, 2023		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
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 June 30, 2023, 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	0.71
	150,000	150,000	0.50	July 8, 2024	1.02
	300,000	300,000	0.50	October 15, 2024	1.30
	150,000	150,000	0.50	October 16, 2024	1.30
	250,000	250,000	0.25	December 10, 2025	2.45
	630,000	630,000	0.35	January 13, 2026	2.54
	560,000	560,000	0.35	February 15, 2026	2.63
	790,000	790,000	0.275	August 4, 2026	3.10
	70,000	70,000	0.175	April 19, 2027	3.81
	16,120,000	**16,120,000**	**0.35**		**1.02**

(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 nine months ended June 30, 2023 (2022 - $76,140).

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%

During the nine months ended June 30, 2022, 114,287 stock options expired unexercised. As a result, $25,340 representing the fair value of the stock options granted and vested was re-allocated from reserves and credited to deficit.

(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 June 30, 2023 and September 30, 2022 and changes during the period/year then ended is as follows:

	Period ended June 30, 2023		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)	0.27
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 June 30, 2023:

Warrants #	Weighted average exercise price $	Expiry Date	Weighted average remaining life (years)
849,504	0.20	December 22, 2023	0.48
15,844,208	0.275	December 22, 2023	0.48
6,875,000	0.08	March 31, 2024	4.23
500,000	0.08	September 21, 2027	4.23
500,000	0.08	September 21, 2027	4.23
24,568,712	**0.21**		**1.68**

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 nine months ended June 30, 2022, 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. Certain other warrants that were originally issued as compensatory warrants (share issue costs) and had a fair value of $34,149 recognized within reserves upon issuance were reversed from reserves and credited to share capital where the fair value was initially recognized.

(Expressed in Canadian Dollars)

8. SHAREHOLDERS' EQUITY (continued)

Warrants (continued)

The warrants issued during the nine months ended June 30, 2022 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:

	June 30, 2022
Risk-free interest rate	3.70%
Expected life of warrants (years)	3.00
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
Options expired	(25,340)	-	(25,340)
Options vesting	7,140	-	7,140
Warrants issued	-	158,600	158,600
Warrants expired	-	(58,636)	(58,636)
June 30, 2022	3,971,746	195,294	4,167,040
September 30, 2022	3,971,746	173,994	4,145,740
June 30, 2023	**3,971,746**	**173,994**	**4,145,740**

Earnings (loss) per share

The calculation of basic and diluted earnings (loss) per share for the three months ended June 30, 2023 and June 30, 2022, is based on the following:

	Three months ended June 30,	
	2023	2022
Income (loss) for the period	$ 419,875	$ (1,047,290)
Weighted average number of common shares outstanding - basic	158,229,296	142,371,809
Dilutive effect of stock options and warrants	-	-
Weighted average number of common shares outstanding - diluted	**158,229,296**	142,371,809
Basic earnings (loss) per share $	**$ 0.00**	$ (0.01)
Diluted earnings (loss) per share $	**$ 0.00**	$ (0.01)

The calculation of basic earnings per share for the three months June 30, 2023 was based on the income attributable to common shareholders, and the weighted average number of common shares outstanding. The calculation of diluted earnings per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding, if dilutive. During the three months ended June 30, 2023 none of the stock options or warrants had a dilutive impact.

(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 nine months ended June 30, 2023 and June 30, 2022 is as follows:

	June 30, 2023	June 30, 2022
	$	$
Directors' fees (within professional fees and consulting)	24,000	42,000
Management fees (within salaries and fees)	252,000	308,000
	276,000	350,000

Related party balances

Amounts payable to related parties as at June 30, 2023 and September 30, 2022 are as follows:

	June 30, 2023	September 30, 2022
Balances included in accounts payable and accrued liabilities:	**$**	$
Directors' fees	44,000	90,150
Management fees	182,800	172,600
	226,800	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
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 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 impacts the financial performance of the Company. During the nine months ended June 30, 2023, 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 44% of total revenue.

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.

(Expressed in Canadian Dollars)

10. FINANCIAL INSTRUMENTS (continued)

Economic dependence and revenue from sale of goods (continued)

Revenue from sale of goods and services (continued)

	Nine months ended June 30, 2023				Nine months ended June 30, 2022			
Revenue stream	**Bulk distillate**	**Branded extract products**	**Private label**	**Total**	Bulk distillate	Branded extract products	Private label	Total
Wholesale	**1,364,904**	**3,783,424**	**1,518,751**	**6,667,079**	**1,169,306**	**2,568,201**	**483,335**	**4,220,842**
British Columbia	167,411	2,942,669	5,026	3,115,106	227,738	2,017,161	411,488	2,656,387
Rest of Canada	1,197,493	840,755	1,513,725	3,551,973	941,568	551,040	71,847	1,564,455
Total	**1,364,904**	**3,783,424**	**1,518,751**	**6,667,079**	**1,169,306**	**2,568,201**	**483,335**	**4,220,842**

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. As at June 30, 2023, 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 June 30, 2023.

Cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk on cash is considered insignificant. As at June 30, 2023, 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.

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 specific periods for the debtors.

During the nine months ended June 30, 2023, the Company recognized loss provisions totalling $211,667 in respect of credit losses associated with two debtors, which was recorded within gain on settlement of accounts payable, net as the amount was combined with a settlement of accounts payable with a separate vendor which resulted in a gain on settlement of $234,602, for a net gain of $22,935.

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.

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.

As at June 30, 2023 and September 30, 2022, the Company was owed an aggregate $801,868 from a company relating to amounts loaned, or advanced as deposits for equipment, by the Company in previous years.

10. FINANCIAL INSTRUMENTS (continued)

Credit risk (continued)

As at June 30, 2023 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. 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 the amounts owed.

Liquidity risk

The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company has been successful in raising equity financing in the past, however, there is no assurance that it will be able to do so in the future. As at June 30, 2023, the Company had working capital of $210,576. Refer to Note 1 for disclosures on the Company's ability to continue as a going concern.

Market risk

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

(i) Currency risk

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

As at June 30, 2023, 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 income (loss) and comprehensive income (loss) for the period by approximately $12,000 (2022 - $6,000).

(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 nine months ended June 30, 2023 and June 30, 2022 as follows:

	June 30, 2023 $	June 30, 2022 $
Non-cash investing activities:		
Adjustment to right-of-use assets (property and equipment) for lease modification	175,713	-
Adjustment to lease liability for lease modification	(175,713)	-
Non-cash financing activities:		
Shares issued in settlement of accounts payable	33,900	97,210
Shares issued on conversion of convertible note	861,231	-
Shares issued for services (professional and consulting)	-	22,500

During the nine months ended June 30, 2023 and June 30, 2022, 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 nine months ended June 30, 2023. 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 executed a Contribution Agreement with NRC-IRAP for non-repayable contributions to the Company for up to $75,000 (received) through to June 30, 2023 (completed). 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 nine months ended June 30, 2023, the Company received proceeds of $75,000, 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 nine months ended June 30, 2023. During the nine months ended June 30, 2022, 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 is interest-free until December 31, 2023. The loan was part of the CEBA benefit in relation to COVID-19 relief. If the loan is repaid by December 31, 2023, up to a 33% balance forgiveness ($13,200) will apply. As at June 30, 2023, the loan is classified within current liabilities as repayment is due by December 31, 2023.

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.