Nextleaf Solutions Ltd.

Condensed Interim Consolidated Financial Statements
For the three months ended
December 31, 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 three months ended December 31, 2023, 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, 2023 and September 30, 2023

	Note	**December 31, 2023 $**	September 30, 2023 $
Assets			
Current assets			
Cash		367,836	898,899
Receivables and prepayments	3	2,551,569	1,656,430
Inventory	4	2,591,374	2,243,740
		5,510,779	4,799,069
Non-current assets			
Deposits		88,913	88,913
Property and equipment	5	3,244,884	3,371,686
Intangible assets	6	265,597	277,367
		3,599,394	3,737,966
Total assets		**9,110,173**	8,537,035
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	4,369,182	3,913,608
Lease liability - current	5	68,101	65,053
Government loan	14	40,000	40,000
		4,477,283	4,018,661
Non-current liabilities			
Lease liability	5	366,388	384,693
		366,388	384,693
Total liabilities		**4,843,671**	4,403,354
Shareholders' equity			
Share capital	8	26,315,229	26,225,580
Reserves	8	4,056,091	4,145,740
Deficit		(26,104,818)	(26,237,639)
Total shareholders' equity		**4,266,502**	4,133,681
Total liabilities and shareholders' equity		**9,110,173**	8,537,035
Nature of operations and going concern	1		

Approved on behalf of the Board of Directors on February 29, 2024:

"Fred Bonner" **Director** *"Sherry Boodram"* **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 months ended December 31, 2023 and December 31, 2022

	Note	**December 31, 2023 $**	December 31, 2022 $
Revenue	10	**4,121,693**	1,427,796
Excise taxes		**(918,165)**	(240,318)
Net revenue		**3,203,528**	1,187,478
Cost of sales		**2,241,063**	1,162,263
Gross profit		**962,465**	25,215
Expenses			
Accretion/interest on convertible debenture		-	17,679
Administrative expenses		98,864	116,680
Amortization	6	11,770	11,766
Depreciation	5	6,442	3,558
Finance costs	5	15,009	7,859
Investor relations and marketing		174,046	50,816
Professional fees and consulting	9	141,971	62,285
Research and operational supplies		68,440	6,724
Salaries and fees, net	9,14	312,161	201,861
		(828,703)	(479,228)
Convertible note financing fee	7	-	(105,000)
Loss provision on receivables	10	(941)	-
		(941)	(105,000)
Income (loss) and comprehensive income (loss) for the period		**132,821**	(559,013)
Earnings (loss) per share			
Weighted average number of common shares outstanding:			
Basic #	8	**159,456,420**	143,470,651
Diluted #	8	**159,456,420**	143,470,651
Basic earnings (loss) per share	8	**0.00**	(0.00)
Diluted earnings (loss) per share	8	**0.00**	(0.00)

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, 2023 and December 31, 2022

	Note	**December 31, 2023 $**	December 31, 2022 $
Operating activities			
Income (loss) for the period		132,821	(559,013)
Adjustments for:			
Accretion/interest on convertible debenture		-	17,679
Amortization		11,770	11,766
Depreciation	5	162,357	149,547
Finance costs	5	15,009	7,859
Convertible note financing fee		-	105,000
Loss provision on receivables	10	941	-
Non-cash working capital items:			
Receivables and prepayments		(896,080)	(119,057)
Inventory		(334,423)	213,902
Deposits		-	(3,000)
Accounts payable and accrued liabilities		455,574	241,830
Customer deposits		-	55,774
		(452,031)	122,287
Investing activities			
Purchases of property and equipment		(48,766)	-
		(48,766)	-
Financing activities			
Lease payments	5	(30,266)	(17,561)
Repayment of convertible debenture	7	-	(117,679)
		(30,266)	(135,240)
Change in cash		**(531,063)**	(12,953)
Cash, beginning of period		**898,899**	377,716
Cash, end of period		**367,836**	364,763
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, 2023 and December 31, 2022

	Common shares	Share capital	Reserves	Deficit	Total
	#	$	$	$	$
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
September 30, 2023	159,456,420	26,225,580	4,145,740	(26,237,639)	4,133,681
Re-allocated on expiry of warrants	-	89,649	(89,649)	-	-
Income and comprehensive income for the period	-	-	-	132,821	132,821
December 31, 2023	**159,456,420**	**26,315,229**	**4,056,091**	**(26,104,818)**	**4,266,502**

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 #3 – 68 Schooner Street, Coquitlam, British Columbia, V3B 7B1 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".

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, 2023, the Company had working capital of $1,033,496 (September 30, 2023 – $780,408). Until certain fiscal quarters during the year ended September 30, 2023, the Company has historically incurred losses and negative cash flows. Although the Company has been profitable in recent fiscal quarters, and 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, profitability, and positive cash flows from operations. The continuance of operations is dependent on the Company continuing to generate income from commercial operations and positive cashflows, and continuing to obtain financing on acceptable terms, if and as necessary.

2. MATERIAL 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, 2023, 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 a 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. MATERIAL 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.

Material 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, 2024. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited consolidated financial statements.

New accounting policies

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2023. With the exception of changing the Company's accounting policies from "significant" to "material", the Company has reviewed all other updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these material accounting policies.

Standards issued but not yet effective

Certain pronouncements have been issued by the IASB, the International Sustainability Standards Board ("ISSB"), or IFRIC that are effective for accounting periods beginning on or after January 1, 2024. 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 material accounting policies.

(Expressed in Canadian Dollars)

3. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments comprise the following:

	December 31, 2023	September 30, 2023
	$	$
Prepaid expenses	201,746	99,855
Sales tax recoverable	27,317	14,965
Trade receivables	2,322,506	1,541,610
	2,551,569	1,656,430

4. INVENTORY

Inventory is comprised of the following:

	December 31, 2023	September 30, 2023
	$	$
Production work in progress - distillate	307,681	412,047
Cannabis products	900,482	744,717
Supplies and hardware	1,001,848	754,178
Finished goods - distillate	381,362	332,798
	2,591,374	2,243,740

Inventory expensed to cost of sales during the three months ended December 31, 2023, totaled $2,063,160 (2022 - $740,077).

(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, 2022	3,581,451	3,108,837	380,160	203,876	7,274,324
Additions	18,533	-	175,713	5,029	199,275
September 30, 2023	3,599,984	3,108,837	555,873	208,905	7,473,599
Accumulated depreciation					
September 30, 2022	2,129,606	992,299	130,248	121,987	3,374,140
Depreciation (1)	291,588	367,085	52,215	16,885	727,773
September 30, 2023	2,421,194	1,359,384	182,463	138,872	4,101,913
Cost					
September 30, 2023	3,599,984	3,108,837	555,873	208,905	7,473,599
Additions	27,746	16,780	-	4,240	48,766
December 31, 2023	**3,627,730**	**3,125,617**	**555,873**	**213,145**	**7,522,365**
Accumulated depreciation					
September 30, 2023	2,421,194	1,359,384	182,463	138,872	4,101,913
Depreciation (1)	60,241	92,006	19,653	3,667	175,567
December 31, 2023	**2,481,435**	**1,451,390**	**202,116**	**142,539**	**4,277,480**
Net book value					
September 30, 2023	1,178,790	1,749,453	373,410	70,033	3,371,686
December 31, 2023	**1,146,295**	**1,674,227**	**353,757**	**70,606**	**3,244,885**

(1) Depreciation for the three months ended December 31, 2023 and December 31, 2022, is allocated as follows:

	December 31, 2023 **$**	December 31, 2022 $
Cost of sales	155,915	168,458
Inventory	13,210	7,296
Operating expenses	6,442	3,558
	175,567	179,312

(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%).

A reconciliation of the carrying amount of the lease liability as at December 31, 2023 and September 30, 2023 and changes during the period/year then ended is as follows:

	December 31, 2023	September 30, 2023
	$	$
Beginning of period/year	449,746	318,634
Lease payments	(30,266)	(83,031)
Extension of lease	-	175,713
Lease interest (finance costs)	15,009	38,430
End of period/year	**434,489**	449,746
Current portion of lease liability	**68,101**	65,053
Non-current portion of lease liability	**366,388**	384,693
	434,489	449,746
Maturity analysis - contractual undiscounted cash flows		
Less than one year	91,616	121,882
One to five years	489,164	489,164
	580,780	611,046

During the three months ended December 31, 2023, the Company incurred $9,151 (2022 - $8,060) 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, 2023 and September 30, 2023, 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:

	Issued patents $	Licences $	Brand $	Total $
Cost				
September 30, 2022	40,352	270,325	110,000	1,046,677
September 30, 2023	40,352	270,325	110,000	1,046,677
Accumulated amortization				
September 30, 2022	6,973	74,024	15,249	722,246
Amortization	2,018	34,046	11,000	47,064
September 30, 2023	8,991	108,070	26,249	769,310
Cost				
September 30, 2023	40,352	270,325	110,000	1,046,677
December 31, 2023	**40,352**	**270,325**	**110,000**	**1,046,677**
Accumulated amortization				
September 30, 2023	8,991	108,070	26,249	769,310
Amortization	504	8,516	2,750	11,770
December 31, 2023	**9,495**	**116,586**	**28,999**	**781,080**
Net book value				
September 30, 2023	31,361	162,255	83,751	277,367
December 31, 2023	**30,857**	**153,739**	**81,001**	**265,597**

7. CONVERTIBLE DEBENTURE

Original terms on issuance:

In March 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). 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. After four amendments to the Note, the Note was settled in full during the year ended September 30, 2023.

In connection with the original issuance of the Note, the Company issued a total of 6,875,000 warrants to the holder, which after an amendment resulting in a replacement for an equal quantity of warrants, the warrants were exercisable at $0.08 each with an expiry of September 21, 2027. There was no value attributed to the warrants on original issuance as the equity conversion feature of the Note was determined to be insignificant. Consequently, there was no value to bifurcate and apply to the warrants on original issuance. Additionally, no amount was recognized on the replacement of these warrants during the year ended September 30, 2022.

(Expressed in Canadian Dollars)

7. CONVERTIBLE DEBENTURE (continued)

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 year ended September 30, 2023.

During the year ended September 30, 2022, the Company and the holder executed three amendments to the Note which collectively resulted in: (i) a forbearance fee of $100,000 recognized as an increase to the principal balance of the Note; (ii) an issuance of 1,000,000 warrants to the holder exercisable at $0.08 each and expiring on September 21, 2027; and (iii) the cancellation of the 6,875,000 warrants originally issued and a replacement of an equal number of warrants (as described above). The 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.

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

Conversions of the Note:

During the year ended September 30, 2023, the Company issued 15,386,030 common shares to the 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 December 31, 2023 and September 30, 2023 and changes during the period/year then ended is as follows:

	Liability $	Deferred financing cost $	Total $
Balance, September 30, 2022	1,003,910	-	1,003,910
Debt financing fee	105,000	-	105,000
Repayments	(247,679)	-	(247,679)
Conversion to common shares	(861,231)	-	(861,231)
Balance, September 30, 2023 and December 31, 2023	-	-	-

(Expressed in Canadian Dollars)

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, 2023:

- There were no issuances of share capital during the three months ended December 31, 2023.

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.

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 December 31, 2023, 244,444 common shares of the Company (September 30, 2023 – 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 three months ended December 31, 2023 and December 31, 2022.

Shareholder Rights Plan

In November 2023, the Company adopted a shareholder rights plan (the "Rights Plan") which provides for the issuance of one right for each outstanding common share of the Company. Pursuant to the terms of the Rights Plan, any bid that meets certain criteria intended to protect the interests of all shareholders will be deemed a "permitted bid". These criteria require, among other things, that the bid be made by means of a take-over bid circular to all holders of voting shares other than the offeror under the bid, and be left open for at least 105 days. In the event a take-over bid does not meet the permitted requirements of the Rights Plan, the rights issued under the Rights Plan will entitle shareholders, other than any shareholder or shareholders involved in the take-over bid, to purchase additional common shares of the Company at a specified exercise price which is a substantial discount to the market price. The Rights Plan was approved by the Company's shareholders in December 2023.

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

	Period ended December 31, 2023		Year ended September 30, 2023	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of period/year	16,120,000	0.35	16,120,000	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, 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	0.21
	150,000	150,000	0.50	July 8, 2024	0.52
	300,000	300,000	0.50	October 15, 2024	0.79
	150,000	150,000	0.50	October 16, 2024	0.79
	250,000	250,000	0.25	December 10, 2025	1.95
	630,000	630,000	0.35	January 13, 2026	2.04
	560,000	560,000	0.35	February 15, 2026	2.13
	790,000	790,000	0.275	August 4, 2026	2.59
	70,000	70,000	0.175	April 19, 2027	3.30
	16,120,000	**16,120,000**	**0.35**		**0.52**

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

There was no share-based payment expense incurred for the three months ended December 31, 2023 and December 31, 2022.

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 have been 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, 2023 and September 30, 2023 and changes during the period/year then ended is as follows:

	Period ended December 31, 2023		Year ended September 30, 2023	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period/year	24,568,712	0.21	24,568,712	0.21
Expired	(16,693,712)	0.27	-	-
Warrants outstanding, end of period/year	**7,875,000**	**0.08**	24,568,712	0.21

(Expressed in Canadian Dollars)

8. SHAREHOLDERS' EQUITY (continued)

Warrants (continued)

The following table summarizes information about the warrants outstanding and exercisable at December 31, 2023:

Warrants \#	Weighted average exercise price $	Expiry Date	Weighted average remaining life (years)
6,875,000	0.08	September 21, 2027	3.73
500,000	0.08	September 21, 2027	3.73
500,000	0.08	September 21, 2027	3.73
7,875,000	**0.08**		**3.73**

During the three months ended December 31, 2023, certain warrants that were originally issued as compensatory warrants expired unexercised. Accordingly, their original fair value of $89,649 was reversed from reserves and credited to share capital.

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, 2022	3,971,746	173,994	4,145,740
December 31, 2022	3,971,746	173,994	4,145,740
September 30, 2023	3,971,746	173,994	4,145,740
Warrants expired	-	(89,649)	(89,649)
December 31, 2023	**3,971,746**	**84,345**	**4,056,091**

Earnings (loss) per share

The calculation of basic and diluted earnings (loss) per share for the three months ended December 31, 2023 and December 31, 2022, is based on the following:

	Three months ended December 31,	
	2023	2022
Income (loss) for the period	$ 132,821	$ (559,013)
Weighted average number of common shares outstanding - basic	159,456,420	143,470,651
Dilutive effect of stock options and warrants	-	-
Weighted average number of common shares outstanding - diluted	**159,456,420**	143,470,651
Basic earnings (loss) per share $	**$ 0.00**	$ (0.00)
Diluted earnings (loss) per share $	**$ 0.00**	$ (0.00)

The calculation of basic earnings per share for the three months ended December 31, 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 December 31, 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 three months ended December 31, 2023 and December 31, 2022, is as follows:

	December 31, 2023	December 31, 2022
	$	$
Directors' fees (within professional fees and consulting)	9,000	6,000
Management fees (within salaries and fees)	79,500	84,000
	88,500	90,000

Related party balances

Amounts payable to related parties as at December 31, 2023 and September, 2023, are as follows:

	December 31, 2023	September 30, 2023
Balances included in accounts payable and accrued liabilities:	**$**	$
Directors' fees	47,000	49,300
Management fees	63,183	192,683
	110,183	241,983

On September 8, 2023, the service contract between the Company and a company controlled by Paul Pedersen, former CEO was terminated. On December 19, 2023, Paul Pedersen also resigned as a Company Director. The related party balances as at December 31, 2023 and September 30, 2023 remain presented in the tables above.

(Expressed in Canadian Dollars)

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 three months ended December 31, 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 53% (2023 – 55%) 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.

	Period ended December 31, 2023				Period ended December 31, 2022			
Revenue stream	**Bulk distillate**	**Branded extract products**	**Private label**	**Total**	Bulk distillate	Branded extract products	Private label	Total
Wholesale	**518,805**	**3,158,318**	**444,570**	**4,121,693**	**274,134**	**951,048**	**202,614**	**1,427,796**
British Columbia	81,552	2,173,921	252,265	2,507,737	27,186	781,647	921	809,754
Rest of Canada	437,253	984,398	192,305	1,613,955	246,948	169,401	201,693	618,042
Total	**518,805**	**3,158,318**	**444,570**	**4,121,693**	**274,134**	**951,048**	**202,614**	**1,427,796**

10. FINANCIAL INSTRUMENTS (continued)

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, 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 December 31, 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 December 31, 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 three months ended December 31, 2023, the Company recognized a loss provision associated with certain debtors of $941 (2022 - $nil).

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 December 31, 2023 and September 30, 2023, 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, which carrying value is $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.

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. Refer to Note 1 for disclosures on the Company's working capital and 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 December 31, 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 - $3,000).

(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, 2023 and December 31, 2022, as follows:

	December 31, 2023	December 30, 2022
	$	$
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, 2023 and December 31, 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 three months ended December 31, 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 through to September 30, 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 year ended September 30, 2023, the Company received proceeds of $75,000, which were recognized as a reduction to salaries and fees and the program is completed. Of this amount, $42,042 was received during the three months ended December 31, 2022.

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 January 18, 2024. The loan was part of the CEBA benefit in relation to COVID-19 relief. As the loan was subsequently repaid by January 18, 2024, a balance forgiveness of $10,000 applied.