

NextLeaf Solutions Ltd.

Financial Statements

(Expressed in Canadian Dollars)

September 30, 2017

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
NextLeaf Solutions Inc.

We have audited the accompanying financial statements of NextLeaf Solutions Inc., which comprise the statements of financial position as at September 30, 2017 and 2016, and the statements of loss and comprehensive loss, cash flows and changes in shareholders' equity (deficiency) for the year ended September 30, 2017 and the period from incorporation on October 6, 2015 to September 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of NextLeaf Solutions Inc. as at September 30, 2017 and 2016 and its financial performance and its cash flows for the year ended September 30, 2017, and the period from incorporation on October 6, 2015 to September 30, 2016 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about NextLeaf Solutions Inc.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

February 13, 2018

NextLeaf Solutions Ltd.
Statements of Financial Position
(Expressed in Canadian Dollars)
As at September 30,

	2017	2016
ASSETS		
Current		
Cash	\$ 342,572	\$ -
Receivables (Note 4)	203,881	-
Prepaid expenses and advances (Note 5)	81,235	-
Due from related parties (Note 8)	100,000	-
Subscriptions receivable (Note 7)	74,495	-
	<u>802,183</u>	-
Equipment deposits (Note 6)	336,996	-
Equipment (Note 6)	<u>869,053</u>	-
	<u>1,206,049</u>	-
	<u>\$ 2,008,232</u>	<u>\$ -</u>
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 141,681	\$ 2,016
Promissory note (Note 6)	<u>2,462</u>	<u>-</u>
	144,143	2,016
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 7)	1,982,637	5,000
Warrant reserve (Note 7)	48,320	-
Subscriptions received in advance (Note 7)	342,645	-
Deficit	<u>(509,513)</u>	<u>(7,016)</u>
	<u>1,864,089</u>	<u>(2,016)</u>
	<u>\$ 2,008,232</u>	<u>\$ -</u>

Nature and Continuance of Operations (Note 1)
Subsequent Events (Note 15)

Approved and Authorized by the Board on February 13, 2018:

"Paul Pedersen"

Director

"Larry Timlick"

Director

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

NextLeaf Solutions Ltd.

Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

	For the year ended September 30, 2017	For the period from incorporation, October 6, 2015 to September 30, 2016
Revenue	\$ 119,760	\$ -
Cost of sales (Note 13)	(267,001)	-
	(147,241)	-
Expenses		
Sales and marketing	92,222	-
General and administration (Note 12)	34,003	-
Share-based payments (Note 7)	-	5,000
Professional fees and consulting (Note 8)	231,022	2,016
	357,247	7,016
Loss and comprehensive loss for the period	\$ (504,488)	\$ (7,016)
Loss and comprehensive loss per share - basic and diluted	\$ (0.03)	\$ (0.00)
Weighted average number of common shares outstanding	14,958,589	2,112,111

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

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

	For the year ended September 30, 2017	For the period from incorporation, October 6, 2015 to September 30, 2016
Cash flows used in operating activities		
Loss for the period	\$ (504,488)	\$ (7,016)
Items not involving cash:		
Depreciation (Note 6)	181,290	-
Share-based payments	-	5,000
Changes in non-cash working capital:		
Receivables	(203,881)	-
Prepaid expenses and advances	(81,235)	-
Due from related parties	(100,000)	-
Accounts payable and accrued liabilities	75,982	2,016
	(632,332)	-
Cash flows used in investing activities		
Purchase of equipment	(351,122)	-
Equipment deposits	(336,996)	-
	(688,118)	-
Cash flows from financing activities		
Subscriptions received in advance	342,645	-
Repayment of promissory note	(125,000)	-
Issuance of common shares, net of share issue costs	1,445,377	-
	1,663,022	
Change in cash	342,572	-
Cash, beginning of period	-	-
Cash, end of period	\$ 342,572	\$ -

Supplemental disclosure of significant non-cash investing and financing activities:

Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Promissory note issued for equipment	\$ 127,462	\$ -
Common shares issued for equipment	\$ 571,759	\$ -
Subscriptions receivable from issuance of common shares	\$ 74,495	\$ -
Share issue costs included in accounts payable and accrued liabilities	\$ 63,683	\$ -
Finders' units – included in share issue costs	\$ 42,400	\$ -
Finders' warrants – included in share issue costs	\$ 48,320	\$ -

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

NextLeaf Solutions Ltd.

Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian Dollars)

	Common Shares		Share Capital		Warrant Reserve		Subscriptions received in advance		Deficit		Total
Balance at October 6, 2015 (inception)	-	\$	-	\$	-	\$	-	\$	-	\$	-
Shares issued on incorporation	1,000		1		-		-		-		1
Shares returned to treasury	(1,000)		(1)		-		-		-		(1)
Share-based payments	5,000,000		5,000		-		-		-		5,000
Loss for the period	-		-		-		-		(7,016)		(7,016)
Balance at September 30, 2016	5,000,000		5,000		-		-		(7,016)		(2,016)
Shares returned to treasury	(1,990,742)		(1,991)		-		-		1,991		-
Shares issued for cash	6,504,444		1,588,000		-		-		-		1,588,000
Subscriptions received in advance	-		-		-		342,645		-		342,645
Share issue costs – cash	-		(131,811)		-		-		-		(131,811)
Share issue costs – finders' units	169,600		-		-		-		-		-
Share issue costs – finders' warrants	-		(48,320)		48,320		-		-		-
Shares issued for equipment (Note 6)	11,435,185		571,759		-		-		-		571,759
Loss for the year	-		-		-		-		(504,488)		(504,488)
Balance at September 30, 2017	21,118,487	\$	1,982,637	\$	48,320	\$	342,645	\$	(509,513)	\$	1,864,089

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

NextLeaf Solutions Ltd.
Notes to Financial Statements
(Expressed in Canadian Dollars)
September 30, 2017 and 2016

1. NATURE AND CONTINUANCE OF OPERATIONS

NextLeaf Solutions Ltd. (the “Company” or “NextLeaf”) was incorporated under the laws of the province of British Columbia on October 6, 2015. The Company is an extraction and processing solution company providing services to the cannabis industry in British Columbia, Canada. The Company’s registered and records office is 1090 West Georgia Street, Suite 600, Vancouver, British Columbia, V6E 3V7.

The Company is in the process of applying for a public listing of its common shares on the Australian Stock Exchange through an initial public offering, see Note 15 for details.

The nature of the Company’s business operations involves a high degree of risk and there can be no assurance that the Company will generate sales and positive cash flows or obtain the necessary financing to fund working capital requirements and fund operational growth and future profitable business operations. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than a process of forced liquidation. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PRESENTATION

These financial statements have been prepared on the historical cost basis except for cash flow information and certain financial instruments which are measured at fair value, as explained in Note 3, and are presented in Canadian dollars except where otherwise indicated.

Statement of compliance

The financial statements of the Company, including comparative, have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Accounting standards issued but not yet effective

A number of new IFRS standards, amendments to standards and interpretations are not yet effective for the year ended September 30, 2017, and have not been applied in preparing these financial statements. The Company is currently assessing the impact of these standards on its financial statements:

- IFRS 9 - New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 - New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers, effective for annual periods beginning on or after January 1, 2018.

2. BASIS OF PRESENTATION (cont'd)

- IFRS 16: A new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lease accounting model, effective for annual periods beginning on or after January 1, 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

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

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

Fair value of finders' warrants

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

Equipment

The estimated useful lives of assets are reviewed by management and adjusted if necessary. To estimate equipment's useful life, management must use its past experience with the same or similar assets, review engineering estimates and industry practices for similar pieces of equipment and/or apply statistical methods to assist in its determination of useful life. Additionally, management makes estimates with respect to the fair value of equipment acquired for non-monetary consideration. The Company assesses fair value by comparing market prices for similar types of equipment.

Non-monetary transactions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Determination of market value of NextLeaf common shares

Management is required to estimate the fair market value of the Company's shares when using its shares to procure assets or financing. Management has estimated the shares' value by comparing other public companies of a similar size and nature as NextLeaf's and applying some of their metrics to NextLeaf's current situation.

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

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Going concern

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

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. A full year of depreciation is recorded in the year of acquisition. No depreciation is recorded in the year of disposal.

Depreciation is provided at rates calculated to amortize the cost of equipment, less its estimated residual value, using the diminishing balance method over its expected period of use by the Company. The Company's equipment is depreciated at a rate of 20%. Estimated useful lives are reviewed by management and adjusted if necessary.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the business. Sales are presented, net of value-added tax, rebates and discounts.

The Company recognises extraction service revenue when the service has been rendered, the amount of revenue and related cost can be reliably measured, and it is probable that the collectability of the related receivables is reasonably assured.

Cash

Cash is defined as cash on hand, cash held in trust and in bank.

Loss per share

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

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

Income taxes

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share capital

Common shares are classified as shareholders' equity (deficiency). Transaction costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity (deficiency). Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

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

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

i. Fair value through profit or loss ("FVTPL")

This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss.

ii. Held to maturity

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

iii. Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

iv. Available-for-sale ("AFS")

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

i. Fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss.

ii. Other financial liabilities

This category consists of liabilities carried at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has classified its cash as fair value through profit or loss. Receivables, due from related parties, and share subscriptions receivable are classified as loans and receivables. The Company's accounts payable and accrued liabilities, and promissory note are classified as other financial liabilities.

Impairment of non-financial assets

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

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

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

NextLeaf Solutions Ltd.
Notes to Financial Statements
(Expressed in Canadian Dollars)
September 30, 2017 and 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. RECEIVABLES

The Company's receivables comprise the following:

	2017	2016
	\$	\$
Trade receivables	185,967	-
Sales taxes receivable	17,914	-
	<u>203,881</u>	<u>-</u>

5. PREPAID EXPENSES AND ADVANCES

The Company's prepaid expenses and advances comprise the following:

	2017	2016
	\$	\$
Conference fees	30,000	-
Retainers	35,516	-
Expense advances and other	15,719	-
	<u>81,235</u>	<u>-</u>

NextLeaf Solutions Ltd.
Notes to Financial Statements
(Expressed in Canadian Dollars)
September 30, 2017 and 2016

6. EQUIPMENT

	Equipment \$
COST	
Balance, September 30, 2016, and October 5, 2015	-
Additions	1,050,343
Balance, September 30, 2017	1,050,343
DEPRECIATION	
Balance, September 30, 2016, and October 5, 2015	-
Depreciation ⁽¹⁾	181,290
Balance, September 30, 2017	181,290
NET BOOK VALUE	
Balance, September 30, 2017	869,053

⁽¹⁾ Depreciation is included in cost of sales for the year ended September 30, 2017, in full. Certain of the Company's equipment was not yet in use at September 30, 2017. Depreciation is taken when items are in the location and condition necessary for it to be capable of operating in a manner intended by management.

On January 10, 2017, the Company acquired cannabis extraction equipment from a third party with a fair value of \$699,221. This value makes up its initial cost (included within additions for the year), (the "Transaction"). Subsequent to the Transaction, the individual became the VP Operations of the Company. The consideration paid by the Company was in the form of: (i) a \$127,462 unsecured promissory note, bearing interest at 2.5% per annum, of which \$2,462 remains outstanding at September 30, 2017; and (ii) 11,435,185 common shares of the Company (Note 7). The Company accrued \$976 in interest expense during the year.

Equipment deposits:

During the year ended September 30, 2017, the Company paid cash deposits for additional cannabis extraction equipment in the amount of \$336,996. The various components of equipment relating to these deposits were received subsequent to September 30, 2017.

7. SHARE CAPITAL AND WARRANT RESERVE

Authorized

Unlimited number of common shares with no par value.

Issued and Outstanding

As of September 30, 2017, the total issued and outstanding share capital consists of 21,118,487 (2016 – 5,000,000) common shares.

Period ended September 30, 2016:

On May 1, 2016, the Company issued 5,000,000 common shares of the Company at \$0.001 per common share for a total fair value of \$5,000, recorded as a share-based payment expense for management services to the Company's CEO. During the year ended September 30, 2017, 1,990,742 of these shares were returned to treasury for \$nil consideration and their book value of \$1,991, was recorded to deficit.

NextLeaf Solutions Ltd.
Notes to Financial Statements
(Expressed in Canadian Dollars)
September 30, 2017 and 2016

7. SHARE CAPITAL AND WARRANT RESERVE (cont'd)

Issued and Outstanding (cont'd)

Year ended September 30, 2017:

On January 10, 2017, the Company issued 11,435,185 common shares of the Company with a value of \$571,759 for the purchase of equipment (Note 6). This transaction was valued in reference to the estimated fair value of the equipment acquired.

On June 2, 2017, the Company issued 372,000 units at a price \$0.25 per unit for gross proceeds of \$93,000. Each unit comprised of one common share, and one common share purchase warrant, exercisable at a price of \$0.50 per share until June 2, 2018. The Company also issued 29,760 finders' warrants in connection with this financing, recorded at a fair value of \$2,976, and paid cash finders' fees of \$5,580. The finders' warrants expire on June 2, 2018, and are exercisable at a price of \$0.25 per share.

On July 10, 2017, the Company issued 317,000 units at a price \$0.25 per unit for gross proceeds of \$79,250. Each unit comprised of one common share, and one common share purchase warrant, exercisable at a price of \$0.50 per share until July 10, 2018. The Company also issued 25,360 finders' warrants in connection with this financing, recorded at a fair value of \$2,536, and paid cash finders' fees of \$4,755. The finders' warrants expire on July 10, 2018, and are exercisable at a price of \$0.25 per share. \$74,495 related to this unit issuance was received subsequent to September 30, 2017.

On July 20, 2017, the Company issued 4,240,000 units at a price \$0.25 per unit for gross proceeds of \$1,060,000. Each unit comprised one common share and one common share purchase warrant, exercisable at a price of \$0.50 per share until July 20, 2018. The Company also issued 424,000 finders' warrants in connection with this financing, recorded at a fair value of \$42,400. Further, the Company paid cash finders' fees of \$42,400, and issued an additional 169,600 units to finders' (in lieu of a cash commission), recorded at a fair value of \$42,400 within share issue costs, having a net \$nil effect on share capital. The finders' warrants expire on July 20, 2018, and are exercisable at a price of \$0.25 per share.

On July 31, 2017, the Company issued 51,000 units at a price \$0.25 per unit for gross proceeds of \$12,750. Each unit comprised of one common share and one common share purchase warrant, exercisable at a price of \$0.50 per share until July 31, 2018. The Company also issued 4,080 finders' warrants in connection with this financing, recorded at a fair value of \$408, and paid cash finders' fees of \$765. The finders' warrants expire on July 31, 2018, and are exercisable at a price of \$0.25 per share.

On August 14, 2017, the Company issued 1,524,444 units at a price \$0.225 per unit for gross proceeds of \$343,000. Each unit comprised of one common share and one common share purchase warrant, exercisable at a price of \$0.50 per share until August 14, 2018.

During the year ended September 30, 2017, the Company received \$342,645 in the form of subscription deposits for units that were issued subsequent to September 30, 2017 (Note 15 (b)).

Aggregate cash share issue costs pursuant to the financings completed during the year ended September 30, 2017, totaled \$131,811, of which \$53,500 were cash commissions to finders' (as disclosed above), and \$78,311 were professional and other fees related to the financings.

NextLeaf Solutions Ltd.
Notes to Financial Statements
(Expressed in Canadian Dollars)
September 30, 2017 and 2016

7. SHARE CAPITAL AND WARRANT RESERVE (cont'd)

Warrants

	Number of warrants outstanding	Weighted average exercise price
Balance, September 30, 2016, October 5, 2015	-	\$ -
Issued – attached to units	6,674,044	0.50
Issued – finders' warrants	483,200	0.25
Balance, September 30, 2017	7,157,244	\$ 0.48

Number of warrants outstanding	Weighted average exercise price	Expiry Dates	Weighted average remaining life (years)
372,000	\$ 0.50	June 2, 2018	0.7
29,760	\$ 0.25	June 2, 2018	0.7
317,000	\$ 0.50	July 10, 2018	0.8
25,360	\$ 0.25	July 10, 2018	0.8
4,409,600	\$ 0.50	July 20, 2018	0.8
424,000	\$ 0.25	July 20, 2018	0.8
51,000	\$ 0.50	July 31, 2018	0.8
4,080	\$ 0.25	July 31, 2018	0.8
1,524,444	\$ 0.50	August 14, 2018	0.9
7,157,244	\$ 0.48		0.8

The fair value of the finders' warrants issued during the year ended September 30, 2017, was \$48,320 (2016 - \$nil), and is recorded as a share issue cost. The fair value of the finders' warrants was estimated at the issuance date based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	2017	2016
Risk-free interest rate	2.30%	-
Expected dividend yield	0%	-
Expected life	1 year	-
Expected volatility	100%	-
Fair value per finders' warrant issued	\$0.10	-

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8. RELATED PARTY TRANSACTIONS

Key management personnel

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.

The remuneration of key management for the periods ended September 30, are as follows:

	2017		2016	
Consulting fees	\$	40,000	\$	-
Share-based payments		-		5,000
	\$	40,000	\$	5,000

Other transactions with related parties

The Company incurred the following amounts with companies controlled by related parties:

	2017		2016	
Legal fees (professional fees)	\$	17,305	\$	2,016

Amounts due from (to) related parties

The following amounts are due from (to) related parties as at September 30:

	2017		2016	
Officer and director of the Company – accounts payable and accrued liabilities	\$	(29,015)	\$	-
Due from related parties ⁽¹⁾		100,000		-
Promissory note ⁽²⁾		(2,462)		-

⁽¹⁾ During the year ended September 30, 2017, \$75,000 was loaned to a director of the Company. The loan is repayable on demand and bears interest at a rate of 6% per annum. An additional \$25,000 was loaned to the VP Operations. The loan is repayable on demand and bears interest at a rate of 3% per annum. Aggregate interest income of \$152 was recorded within general and administration during the year.

⁽²⁾ The promissory note is unsecured and bears interest at rate of 3% per annum payable to the VP Operations (Note 6).

9. FINANCIAL INSTRUMENTS

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
- Level 3 - Inputs that are not based on observable market data.

Fair value risk

The Company's financial instruments consist of cash, receivables, due from related parties, subscriptions receivable, accounts payable and accrued liabilities, and promissory note.

The Company's financial instruments with the exception of cash approximate their fair value due to their short-term maturities. The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted prices in active markets for identical assets or liabilities.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

All the Company's cash is held through a Canadian chartered bank and accordingly, the Company's exposure to credit risk on cash is considered to be limited. The Company's exposure to its trade receivables equates to their carrying value. Subsequent to September 30, 2017, the Company collected its trade receivables in full. The Company's sales taxes receivable are refunds due from the Government of Canada and the exposure to credit risk on these amounts are considered to be limited.

Liquidity risk

The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company has been successful in raising equity financing in the past; however, there is no assurance that it will be able to do so in the future. As at September 30, 2017, the Company had working capital of \$658,040, and requires additional financing to meet its business objectives. Subsequent to September 30, 2017, the Company obtained additional equity financing (Note 15).

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 has insignificant exposure to currency risk as it does not have assets or liabilities denominated in foreign currencies. The Company occasionally incurs purchases denominated in the United States dollar.

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9. FINANCIAL INSTRUMENTS (cont'd)

Market risk (cont'd)

(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, except for cash held in interest-bearing accounts which poses an insignificant risk exposure.

(iii) Price risk

The Company has limited exposure to price risk with respect to equity prices as it operates as a private company currently. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. This risk level will change if the Company becomes publicly traded.

10. CAPITAL RISK MANAGEMENT

The Company defines capital as the components of shareholders' equity (deficiency). The Company's objectives when managing capital are to support further advancement of the Company's business objectives and existing service offerings, as well as to ensure that the Company is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended September 30, 2017. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products.

11. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	2017	2016
Loss before income taxes	\$ (504,488)	\$ (7,016)
Expected income tax recovery	(131,000)	(2,000)
Permanent difference	2,000	1,000
Change in unrecognized deductible temporary differences and other	129,000	1,000
Income tax recovery	\$ -	\$ -

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11. INCOME TAXES (cont'd)

The Company has unused temporary differences that have not been included on the statements of financial position as follows:

	2017	Expiry Date Range	2016	Expiry Date Range
Equipment	\$ 91,000	N/A	\$ -	N/A
Share issue costs	\$ 79,000	2021	\$ -	N/A
Non-capital losses available	\$ 441,000	2036 – 2037	\$ 2,000	2036

12. GENERAL AND ADMINISTRATION

General and administration expenses comprise the following:

	2017	2016
Bank charges	\$ 534	\$ -
Foreign exchange	3,771	-
Insurance	13,085	-
Office	10,660	-
Rent	5,953	-
	<u>\$ 34,003</u>	<u>\$ -</u>

13. COST OF SALES

Cost of sales comprises the following:

	2017	2016
Contractors	\$ 28,000	\$ -
Depreciation	181,290	-
Supplies and utilities	57,711	-
	<u>\$ 267,001</u>	<u>\$ -</u>

14. SEGMENTED INFORMATION

The Company has a single reportable segment: the provision of extraction and processing solutions to the cannabis industry in British Columbia, Canada. All of the Company's revenues are generated in Canada, and its non-current assets are located in Canada.

For the year ended September 30, 2017, there were five customers that each accounted for greater than 10% of total revenue individually. The aggregate revenues from these customers amounted to \$119,760.

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2017, the Company:

- a) Is in the process of applying for a public listing of its common shares on the Australian Stock Exchange through an initial public offering (“IPO”) of up to 23,333,333 common shares for gross proceeds of up to \$7,000,000, of which a commission of 2,500,000 shares is due to the broker.
- b) On October 31, 2017, 1,648,112 units were issued at a price of \$0.25 per unit for gross proceeds of \$412,028. Each unit comprises one common share and one common share purchase warrant exercisable at a price of \$0.50 per common share until July 20, 2018. Related to this issuance, \$342,645 of subscriptions received in advance as at September 30, 2017, were reclassified to share capital.
- c) On January 31, 2018, 4,500,000 shares were issued at a price of \$0.11 a share for gross proceeds of \$487,566. The Company also paid cash finders’ fees of \$34,130.
- d) On January 31, 2018, 3,775,144 shares were issued at a price of \$0.18 a share for gross proceeds of \$665,734. The Company also paid cash finders’ fees of \$46,601.