NEXTLEAF SOLUTIONS LTD.

(formerly Legion Metals Corp.)

MANAGEMENT DISCUSSION AND ANALYSIS

September 30, 2019

NEXTLEAF SOLUTIONS LTD.

(formerly Legion Metals Corp.)

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A")

Effective January 28, 2020

The following discussion and analysis of the financial condition and results of operations of Nextleaf Solutions Ltd. (formerly Legion Metals Corp.) ("Legion" or the "Company") for the year ended September 30, 2019 should be read in conjunction with the Company's annual audited financial statements and related notes for the year ended September 30, 2019. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All monetary amounts in the MD&A are expressed in Canadian dollars, or as otherwise indicated.

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. Forward-looking statements are not historical facts but reflect management's expectations regarding future events. Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations.

DESCRIPTION OF THE BUSINESS

Nextleaf Solutions Ltd. (formerly Legion Metals Corp.) ("Legion", the "Company") was incorporated under the laws of the province of British Columbia on December 8, 2016. The Company changed its name to Nextleaf Solutions Ltd., on March 14, 2019. The Company is a Canadian cannabis extractor and processor, with a focus on developing intellectual property for the extraction, distillation and formulation of cannabinoids. The Company owns a portfolio of 12 issued patents pertaining to the industrial-scale production of high-purity, cannabinoid-rich distillate, the key ingredient used in the manufacturing of standardized THC and CBD based products. The Company commercializes its intellectual property portfolio through IP licensing, and supplying CBD and THC oils through Nextleaf Labs, a Health Canada licenced Standard Processor.

On September 9, 2019, Health Canada issued a Standard Processing License on the Company's facility to Nextleaf Labs Ltd. ("Labs"). Labs is a private company incorporated in the province of British Columbia and wholly-owned by a consultant of the Company. Subsequent to year end, on October 11, 2019, the Company entered into a Share Purchase Agreement to acquire all of the issued and outstanding equity of Labs, see "Overall Performance" below. In January 2020, Health Canada issued a Research Licence on the Company's facility to Nextleaf Labs Ltd.

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."

As at September 30, 2019, the Company had no debt and was in a positive working capital position of $3,550,271. The Company's common shares trade on the Canadian Securities Exchange under the trading symbol "OILS", on the OTCQB Markets under the trading symbol "OILFF", and on the Frankfurt Stock Exchange under the trading symbol "L0MA".

Reverse Acquisition and Public Listing:

On March 14, 2019, Legion acquired all of the issued and outstanding common shares of Nextleaf Innovations Ltd., ("Nextleaf") a private British Columbia cannabis extraction technology company incorporated on October 6, 2015. The acquisition was completed by way of an Acquisition and Arrangement Agreement (Plan of Arrangement) (the "Transaction").

The Transaction was accounted for as a reverse acquisition ("RTO") of Legion by Nextleaf for accounting purposes, with Nextleaf being identified as the accounting acquirer, and accordingly, these financial statements are a continuation of Nextleaf. The net assets of Legion at the date of the RTO are deemed to have been acquired by Nextleaf, as follows:

Net assets of Legion acquired:	**March 14, 2019 $**
Cash	100,250
Receivables	6,811
Net assets acquired	**107,061**
Consideration paid in RTO of Legion:	**$**
Common shares (fair value of 3,647,029 common shares at $0.35 per share)	1,276,460
Replacement warrants (Note 8)	11,000
Replacement options (Note 8)	44,300
Transaction costs - cash	189,668
Total consideration paid	**1,521,428**
Listing expense	**1,414,367**

The financial statements include the results of operations of Legion from March 14, 2019. The comparative figures are those of Nextleaf prior to the RTO, with the exception of adjusting retroactively the capital (number of common shares, and warrants) of Nextleaf to reflect the capital of the Legion.

For the purposes of this MD&A, the "Company" or "Nextleaf" is hereinafter defined as the consolidated entity.

Nextleaf is an extraction technology company that has developed a portfolio of issued and pending patents pertaining to the company's unique, industrial-scale process of producing purified cannabinoid distillate, a tasteless, odourless cannabis concentrate best suited for infusing premium value-added products. Nextleaf has completed construction of its dedicated extraction and processing facility in Greater Vancouver, British Columbia. The Company's facility is awaiting Health Canada licensing, which requires an inspection and approval of site evidence package submission. Nextleaf is actively developing and protecting intellectual property pertaining to the extraction, refinement, and purification of cannabinoids.

Nextleaf is a Canadian cannabis extractor and processor, with a focus on developing intellectual property for the extraction, distillation and formulation of cannabinoids. The Company owns a portfolio of 12 issued patents pertaining to the industrial-scale production of high-purity, cannabinoid-rich distillate, the key ingredient used in the manufacturing of standardized THC and CBD based products. The Company commercializes its intellectual property portfolio through IP licensing, and supplying CBD and THC oils through Nextleaf Labs, a Health Canada licenced Standard Processor.

As of the date of this MD&A, the Company owns a total of 12 issued patents from four international patent offices in the key markets of Canada, the United States of America, Australia, and Colombia. .

On September 9, 2019, Health Canada issued a Standard Processing Licence on the Company's facility to Labs. Subsequent to year end, In January 2020, Health Canada issued a Research Licence on the Company's facility to Nextleaf Labs Ltd. On October 11, 2019, the Company entered into a Share Purchase Agreement to acquire all of the issued and outstanding equity of Labs, see "Overall Performance" below.

The Company is working towards commercializing its intellectual property portfolio of issued and pending patents through licensing of intellectual property, providing toll processing services to licensed cultivators of cannabis and hemp, and supplying cannabis oil to qualified Canadian and international business-to-business partners under their own brand, see "Overall Performance" below for agreements relating to the commercialization of the Company's intellectual property.

Nextleaf's facility has been designed with an annual production capacity to process 182,500 kg of dried cannabis biomass. The Company's facility also includes dedicated research and laboratory infrastructure, allowing for the continued and rapid development of new intellectual property related to cannabis processing technologies and formulations

The Company generates revenue through three verticals: toll processing, private label production, and licensing intellectual property. (see "Overall Performance" below for agreements relating to licensing of intellectual property).. The Company's mission is to develop and deploy large-scale cannabis and hemp extraction technologies and provide turn-key processing solutions to help licensed cultivators maximize the value of every harvest.

The Company owns and continually invests in an intellectual property portfolio of systems, methods, and apparatuses for the extraction and refinement of high-value extracts from cannabis and hemp biomass, as well as formulations for a number of cannabinoid-infused products. The Company's patented technology and market-validated formulations help cultivators increase revenue and profitability through extraction and purification of biomass into tasteless, and odourless cannabinoid distillate oil. Containing a cannabinoid concentration of up to 95%, the resulting distillate is easy to dose, formulate, and develop into innovative, value-added products for medical and adult-use markets.

OVERALL PERFORMANCE

The Company's focus for the year ended September 30, 2019, was completing the build-out of its centralized processing facility in Coquitlam, BC, completing an RTO to obtain a public listing on the Canadian Securities Exchange, obtaining licensing for its centralized processing facility (received on September 9, 2019), and entering into agreements to commercialize its intellectual property.

Additionally, the Company was active in developing and protecting intellectual property pertaining to the extraction, purification, and formulation of cannabinoids and production of cannabis derived products by obtaining a number of issued patents for its extraction processes and technology.

<u>Commercialization of Intellectual Property</u>

Supply Agreement

On September 16, 2019, the Company announced a Supply Agreement with BevCanna Enterprises Inc. ("BevCanna"), a company based in British Columbia that trades on the Canadian Securities Exchange. Pursuant to the Supply Agreement, the Company has granted BevCanna an exclusive license for the use of the Company's intellectual property related to water-soluble cannabinoids for the development, manufacturing and sale of BevCanna products. Commencement of this Supply Agreement is subject to BevCanna obtaining a license permitting it to process and sell cannabis.

Royalty Agreement

On December 16, 2019, the Company entered into a License and Distribution Royalty Agreement (the "Royalty Agreement") with a private British Columbia company (the "Licensee"). Pursuant to the Royalty Agreement, the Company will grant the Licensee a non-exclusive license for the use of certain issued and pending patents (the "Licensed Patents") in exchange for a 20% royalty on the Licensee's gross revenue, which will be payable to the Company on a quarterly basis. The Royalty Agreement is for an indefinite term.

The Company will also contribute working capital to the Licensee for use in the development of the Licensee's business. This cash contribution is repayable to the Company if the Royalty Agreement terminates on or before December 6, 2024.

As of the date of the MD&A the Company has recognized initial revenue of $350,000 in royalty fees, for the initial month of the Royalty Agreement. This initial traction, puts the contract ahead of Managements annual guidance of $3,000,000 in revenue generated from the contract in 2020.

<u>Private Placement Financings</u>

- In conjunction with the closing of the RTO, the Company completed a brokered private placement of 14,285,714 units at a price of $0.35 per unit for gross proceeds of $5,000,000. Each unit comprised of one common share and one common share purchase warrant exercisable at $0.70 per share until March 14, 2021.

- Additionally, the Company completed a second private placement by issuing 10,400,000 units for gross proceeds of $4,160,000. Each unit comprised of one common share and one common share purchase warrant exercisable at $0.70 per share until May 15, 2021.

  In connection with this private placement, the Company paid $120,450 in finders' fees and issued 298,625 finders' warrants. The finders' warrants are exercisable at $0.40 per share until May 15, 2021.

<u>Other Financings</u>

During the year ended September 30, 2019, the Company raised additional cash proceeds through the exercise of warrants and stock options by issuing 456,393 common shares for total proceeds of $159,738.

Acquisition of patents / intangible assets

During the year ended September 30, 2019, the Company issued 640,522 common shares with an aggregate fair value of $300,000 for the acquisition of two significant pieces of cannabis intellectual property. The first is a U.S. patent pending hydrocarbon extraction process, known as "shatter". The second relates to the acquisition of existing technology and engagement for further research and develop two water-soluble cannabinoid formulations and the processing methodology and ingredient formulation thereof.

Government assistance

- Scientific Research and Experimental Development (SR&ED)

  During the year ended September 30, 2019, the Company received $195,366 from the SR&ED Program. Of this amount, $161,062 was attributable to the Company's 2018 tax year, and $34,304 was attributable to the Company's 2017 tax year.

  SR&ED is a federal tax incentive program designed to encourage Canadian businesses of all sizes and in all sectors to conduct research and development in Canada.

- National Research Council Canada ("NRC") – Industrial Research Assistance Program

  The Company entered into a Contribution Agreement with the NRC to receive a grant under the Industrial Research Assistance Program ("IRAP") for a project pertaining to the removal of chlorophyll and like impurities from crude oil extracts. The agreement came into effect on July 1, 2018 and concluded in August 2019.

  During the IRAP project, the Company successfully developed a media treatment process to remove undesirable elements from crude extract. Technology developed during the IRAP project will be applied within the Company's patented extraction process and used in the production of THC and CBD distillates for various products.

  The grant reimbursed the Company for 80% of supported salary costs to a maximum of $80,000 for the calendar 2018/2019 period.

  During the year ended September 30, 2019, $74,481 was received under the grant (2018 - $8,855 accrued or received). As at September 30, 2018, $4,243 was included in receivables, and collected during the year ended September 30, 2019.

Events subsequent to September 30, 2019

- Share Purchase Agreement – Nextleaf Labs Ltd.

  On October 11, 2019, the Company entered into a Share Purchase Agreement to acquire all of the issued and outstanding shares of Nextleaf Labs Ltd. ("Labs"). Consideration payable by the Company is $385,000 by way of issuing common shares of the Company. Other than owning the Standard Processing License issued by Health Canada on the Company's facility, Labs does not own other material assets or liabilities, or have any commercial operations. The acquisition has not yet closed and is subject to standard approval procedures.

- Grant of stock options

  In October 2019, the Company granted 450,000 stock options in aggregate to a director, and an employee of the Company. The stock options vest immediately and are exercisable for five years at a price of $0.50 each.

- Royalty Agreement

  As described above, on December 16, 2019, the Company entered into a Royalty Agreement relating to a license to use certain of the Company's patents.

RESULTS OF OPERATIONS

The variations from quarter to quarter over the previous eight financial quarters as shown below are largely attributable to variations in revenue and increased expenses correlating with increases in operating activity and the Company's public listing. The Company's expenses are primarily characterized by cash-based expenses driven by the more significant amounts within investor relations and advertising, professional fees and consulting, wages and salaries, and administrative expenses (amongst others). The Company's non-cash expenses include share-based payments, listing expense, and depreciation.

Loss from operating expenses increased by approximately $5,564,000 during the year ended September 30, 2019, relative to the year ended September 30, 2018. Additionally, the Company did not generate revenue during the year ended September 30, 2019, as Nextleaf Labs Ltd. only obtained licensing from Health Canada on the Company's facility in September 2019 (see pending acquisition of Nextleaf Labs Ltd. by the Company, "Share Purchase Agreement – Nextleaf Labs Ltd." within "Overall Performance"). As of the date of the MD&A the Company has recognized initial revenue of $350,000 in royalty fees, for the initial month of the Royalty Agreement the Company entered into on December 16, 2019, The Company's loss and comprehensive loss for the year ended September 30, 2019, was approximately $8,746,000 (2018 - $2,204,000).

During the year ended September 30, 2019, the Company increased investor relations efforts as a newly listed company, and it incurred significant professional fees in relation to obtaining its public listing and outsourcing various professional functions. More notable fluctuations in the results of operations for the year ended September 30, 2019, are as follows:

- Investor relations and advertising increased by approximately $918,000 to $1,118,355 due to increased efforts and significant marketing campaigns to create investor and customer awareness as a newly listed entity;

- Administrative expenses increased by approximately $455,000 to $717,759 as general and administrative items such as insurance expense, office supplies, and shipping charges all increased. Additionally, a write-down of a deposit in the amount of $75,000 was included in this amount. Furthermore, rent increased by approximately $85,000 as the Company's facility lease was in effect for its first full year. Supplies of approximately $124,000 were included in this category compared to being included in cost of sales in fiscal 2018, and transfer agent and filing fees of approximately $73,000 were incurred for the first-time as the Company is now a reporting issuer.

- Professional fees and consulting increased by approximately $291,000 to $1,110,657 primarily due to greater legal fees related to patent filings prior to the capitalization of such expenses commencing in September 2019, the Company's public listing, and other general corporate matters which increased as a result of becoming a reporting issuer. Additionally, the Company engaged with consultants to perform various professional services namely the provision of engineering consulting relating to its centralized processing facility and the Company's custom-built extraction and refinement plant;

- Wages and salaries increased by approximately $155,000 to $568,829 as the Company hired additional staffing at its facility and head office in various departments to facilitate growth efforts;

- Listing expense of $1,414,367 is primarily a non-cash expense. $189,668 of this amount related to cash-based expenditures for legal and professional fees directly associated with completion of the RTO. The remainder of this expense represents the excess of the non-cash consideration paid over the net assets of Legion, and the resulting cost of obtaining a public listing; and

- Share-based payment expense of $2,796,272 comprises the fair value of stock options vested during the year. Share-based payments increased by approximately $2,769,000 as a result of the granting of stock options upon completing the RTO and public listing.

SUMMARY OF QUARTERLY RESULTS

The following table shows results from the last eight quarters:

Period Ending	Revenue $	Loss and comprehensive loss $	Basic and Diluted Loss Per Share $
September 30, 2019	-	(2,050,650)	(0.02)
June 30, 2019	-	(1,489,458)	(0.04)
March 31, 2019	-	(4,473,406)	(0.11)
December 31, 2018	-	(732,121)	(0.01)
September 30, 2018	182,000	(769,437)	(0.01)
June 30, 2018	90,172	(428,424)	(0.01)
March 31, 2018	221,002	(614,305)	(0.01)
December 31, 2017	30,234	(391,952)	(0.01)

FOURTH QUARTER RESULTS

The Company's performance for the three months ended September 30, 2019, was as follows (amounts are rounded):

	Three months ended September 30, 2019 **$**	Three months ended September 30, 2018 $
Revenue	-	182,000
Loss from operating expenses	(2,256,000)	(855,000)
Loss and comprehensive loss	(2,051,000)	(837,000)
Cash used in operating activities	(1,310,000)	(808,000)
Cash used in investing activities	(462,000)	(82,000)
Cash provided by financing activities	577,000	1,003,000

Three months ended September 30, 2019

During the three months ended September 30, 2019, the Company's loss from operating expenses was driven by investor relations and advertising of $741,000, share-based payments of approximately $457,000 relating to the continued vesting of options granted on closing of the RTO, and the aggregate of management fees plus professional fees and consulting, which totaled $410,000. These components were the primary contributors to the increase in loss and comprehensive loss during the period then ended.

During the period the Company entered into additional marketing campaigns and recognized the usage of prepaid campaigns, which drove the increase in investor relations.

During the three months ended September 30, 2019, the Company's use of cash from operating activities was primarily characterized by the increase in loss of operating expenses which were substantially cash-based operating expenses.

Cash used in investing activities was driven by additional purchases of equipment, payments of intangible assets, and additional disbursements of funds for loans receivable.

Cash provided by financing activities during the period were driven by additional warrants exercised during the period.

Three months ended September 30, 2018

During the three months ended September 30, 2018, the Company's loss from operating expenses was driven by increases in professional fees and consulting (increased by approximately $155,000), and general and administration (increased by approximately $110,000). These increases were the primary contributors to the increase in loss and comprehensive loss during the period then ended.

During the three months ended September 30, 2018, the Company's use of cash from operating activities was primarily characterized by the increase in loss of operating expenses which were substantially cash-based operating expenses. Cash used in investing activities was driven by additional purchases of equipment during the period as well as the disbursement of funds for a promissory note receivable. Cash provided by financing activities during the period were driven by the completion of an equity financing for the issuance of common shares.

As at September 30, 2018 and for the three months then ended, total assets increased primarily as a result of increased current assets including cash from the financing and subscriptions receivable, as well as non-current assets comprising primarily of increased equipment due to leasehold expenditures and extraction equipment acquisitions. Total liabilities increased as a result of normal operating fluctuations in accounts payable and accrued liabilities. Working capital increased as a result of the excess of the increase in current assets relative to accounts payable and accrued liabilities, which is the Company's only component of total liabilities.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objectives when managing its liquidity and capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

Cash and working capital

As at September 30, 2019 the Company had cash of approximately $4,296,000 and working capital of approximately $3,550,000.

Cash flow activity

The increase in cash and working capital as at September 30, 2019 compared to September 30, 2018, is substantially driven by the Company completing two private placements for gross proceeds of $9,160,000 as discussed in "Share Capital Information" below in conjunction with closing of the RTO.

During the year ended September 30, 2019, cash increased by approximately $3,458,000, which was driven by the excess of cash flow from financing activities over and above cash used in operating and investing activities, as described below:

- Cash used in operating activities was approximately $4,235,000;
- Cash used in investing activities of approximately $2,119,000 was driven by purchases of equipment and leasehold improvements, funds advanced for loans receivable including a loan to Nextleaf Labs of $75,000, and payments for intangible assets including patent application costs and other milestone payments pursuant to agreements relating to the acquisition of patents. Investing activities were partially offset by cash acquired on reverse acquisition (RTO); and
- Cash flows from financing activities of approximately $9,813,000 was driven by proceeds from the issuance of common shares net of share issue costs which mostly comprised of private placement financings completed plus options and warrants exercised, and collections of subscriptions receivable.

SHARE CAPITAL INFORMATION

Authorized: Unlimited number of common shares with no par value.

Issued and Outstanding

As at the date of this MD&A, total issued, and outstanding common shares consists of 108,123,044 common shares.

Transactions for the issue of share capital during the year ended September 30, 2019:

- In conjunction with the closing of the RTO, the Company completed a brokered private placement of 14,285,714 units at a price of $0.35 per unit for gross proceeds of $5,000,000. Each unit comprised of one common share and one common share purchase warrant exercisable at $0.70 per share until March 14, 2021.

  In connection with the private placement and closing of the RTO, the Company issued 569,446 compensatory finders' warrants with a fair value of $105,300. The Company also issued 112,203 replacement warrants and 200,000 replacement stock options with an aggregate fair value of $55,300. The fair value of the replacement warrants and replacement stock options are included as part of consideration paid on closing of the RTO.

  Additionally, the Company paid $242,250, in cash share issue costs in connection with completion of the private placement.

- The Company completed a private placement by issuing 10,400,000 units at a price of $0.40 per unit for gross proceeds of $4,160,000. Each unit comprised of one common share and one common share purchase warrant exercisable at $0.70 per share until May 15, 2021.

In connection with this private placement, the Company paid $120,450 in finders' fees and issued 298,625 finders' warrants with an aggregate fair value of $134,382. The finders' warrants are exercisable at $0.40 per share until May 15, 2021.

- The Company issued 195,680 common shares on the exercise of warrants for proceeds of $68,488. In addition, $26,338 representing the fair value of the warrants on initial issuance was re-allocated from reserves to share capital.

- The Company issued 260,713 common shares on the exercise of stock options for proceeds of $91,250. In addition, $45,930 representing the fair value of the stock options on initial vesting was re-allocated from reserves to share capital.

- The Company issued 640,522 common shares with an aggregate fair value of $300,000 for the acquisition of the patent-pending shatter, and water-solubility technology.

Shareholder Rights Plan

On July 23, 2019, the Company adopted a shareholder rights plan whereby the Company issued one right (the "Right") for $nil consideration in respect of each outstanding common share of the Company to all holders of record on July 23, 2019. The term of the plan is for three years, subject to re-approval by the shareholders of the Company at the 2022 Annual Meeting.

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

Stock options

As at the date of this MD&A, the Company has 14,439,287 stock options outstanding.

A summary of the status of the Company's stock options as at September 30, 2019 and changes during the year then ended is as follows:

	Year ended September 30, 2019	
	Options #	Weighted average exercise price $
Options outstanding, beginning of year	-	-
Granted - Performance stock options	7,500,000	0.35
Granted - Regular stock options	6,550,000	0.35
Assumed on RTO	200,000	0.35
Exercised	(260,713)	0.35
Options outstanding, end of year	**13,989,287**	**0.35**

Warrants

At the date of this MD&A, the Company had 25,470,305 warrants outstanding.

A summary of the Company's common share purchase warrants as at September 30, 2019 and changes during the year then ended is as follows:

	Year ended September 30, 2019	
	Warrants \#	Weighted average exercise price $
Warrants outstanding, beginning of year	750,000	0.25
Issued - attached to units	24,685,711	0.70
Issued - finders' warrants	868,071	0.37
Replacement finders' warrants assumed on RTO	112,203	0.35
Exercised	(195,680)	0.35
Expired	(750,000)	0.25
Warrants outstanding, end of year	**25,470,305**	**0.69**

OFF-BALANCE SHEET ARRANGEMENTS

Nextleaf does not utilize off-balance-sheet arrangements.

PROPOSED TRANSACTIONS

There are no proposed transaction as of the date of this MD&A.

TRANSACTIONS WITH RELATED PARTIES

The remuneration of key management and directors for the years ended September 30, 2019 and September 30, 2018 are as follows:

	September 30, 2019 **$**	September 30, 2018 $
Directors' fees	36,140	10,000
Management fees	732,024	330,264
Share-based payments	1,943,783	-
	2,711,947	340,264

Management fees and share-based payments comprise amounts paid/accrued to the officers and directors of the Company either directly, or to companies controlled by them for their services as executive officers and/or directors of the Company which includes the CEO, CFO, CTO and other directors. Legal fees comprises amounts paid to a former director until the date which the individual ceased to be a director.

Amounts payable to related parties

The following amounts are payable to related parties as at September 30, 2019 and September 30, 2018:

	September 30, 2019 **$**	September 30, 2018 $
Amounts due to Officers/Directors	50,345	138,286
	50,345	138,286

Amounts are due to CEO, CFO, and CTO, and certain directors relating to management fees and/or directors' fees presented above.

Amounts receivable from related parties

The following amounts are receivable from related parties as at September 30, 2019 and September 30, 2018:

	September 30, 2019	September 30, 2018
	$	$
Due from related parties	-	102,773
Prepaid management fees and expenses	68,573	50,477
	68,573	153,250

Due from related parties is an amount due from a former director, and prepaid expenses is an expense advanced to the CTO.

The Company paid or accrued amounts for transactions with other related parties as follows:

	September 30, 2019	September 30, 2018
	$	$
Legal (professional fees)	-	56,565
	-	56,565

During the year ended September 30, 2019, the Company reached a tentative agreement with a former director in relation to an amount included within due from related parties. Accordingly, the Company reclassified $75,000 to deposits and wrote-off $5,770 of accrued interest receivable formerly included in due to related parties to administrative expenses. As at September 30, 2019, the Company determined that the timing and recoverability of the remaining $75,000 was uncertain. As a result, an allowance of $75,000 has been recorded to administrative expenses.

Warehouse Lease Commitment

The Company has an agreement to lease its centralized processing facility (leasehold improvements). The lease is for the period from July 1, 2018 to June 30, 2023. The Company's minimum annual commitments are as follows:
F$

Fiscal Year	**Total commitment**
	$
2020	64,131
2021	66,012
2022	69,120
2023	52,763
	252,026

NEW ACCOUNTING STANDARDS

New accounting policies

IFRS 9 – *Financial Instruments*

The Company has adopted new accounting standard IFRS 9 - Financial Instruments, effective for annual periods beginning on or after January 1, 2018. The adoption of IFRS 9 did not result in any changes to the classification, measurement or carrying amounts of the Company's existing financial instruments on the transition date of October 1, 2018.

The details of this new significant accounting policy and the nature and effect of the changes to the previous accounting policy is detailed in Note 2 of the financial statements for the year ended September 30, 2019.

IFRS 15 – *Revenues from contracts with customers*

The Company has adopted new accounting standard *IFRS 15 – Revenues from contracts with customers*, effective for annual periods beginning on or after January 1, 2018. The adoption of IFRS 15 did not result in any changes to the report amounts of revenues for the Company.

Refer to Note 2 to the financial statements for the Company's significant accounting policies for revenue recognition.

Accounting standards issued but not yet effective

IFRS 16 Leases

IFRS 16 specifies how to recognize, measure, present and disclose leases. The new standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for the Company's annual period beginning on October 1, 2019.

The Company has completed the scoping and review of its facility lease contract and is in the process of measuring the impact of IFRS 16 on the lease identified upon transition and for modified retrospective restatement.

The Company anticipates the adoption of IFRS 16 will have a material impact on the statements of financial position primarily due to the capitalization and recognition and measurement of the right-of-use assets and lease liabilities. The impacts on profit or loss will be an elimination of rent expense within administrative expenses, and the recognition of depreciation of the right-of-use asset, and interest (finance) costs on the lease liability. The facility lease is denominated in Canadian dollars, therefore there will be no additional volatility in foreign exchange recognized in profit or loss.

The Company has a lease for its manufacturing and processing facility and corporate offices. The lease is expected to be recorded as a right-of-use asset (within property and equipment) with a corresponding lease liability under IFRS 16.

The Company anticipates recognizing a right-of use asset of approximately $188,000 with a corresponding lease liability of approximately $201,000, with the difference between the right-of-use asset and lease liability to be recorded to deficit, as at October 1, 2019.

IFRIC 23 - *Uncertainty over Income Tax Treatments*

The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for the Company's annual period beginning on October 1, 2019.

The Company has initially anticipated that there will be no significant impact on adoption of the Interpretation.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

RISKS AND UNCERTAINTIES

The Company operates in rapidly changing environment that involves risks and uncertainties and as a result management expectation may not be realized for a number of reasons. An investment in Nextleaf common shares is speculative and involves a high degree of risk and uncertainty. The current regulatory uncertainty poses additional risks and uncertainties which may materially affect management's expectations.

Regulatory Risks

The operations of the Company will be subject to various laws governing the production and distribution of cannabis oil, taxes, labour standards and occupational health, toxic substances, land use, water use, and other matters.

The *Cannabis Act* is a new regime and as such, revisions to the regime could be implemented which could have an impact on operations.

Furthermore, although the operations of each of Nextleaf are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the ability to produce cannabis oil and related products. Amendments to current laws and regulations governing the distribution, transportation and/or production of cannabis oil or related products, or more stringent implementation thereof could have a substantial adverse impact.

Ongoing Need for Financing

As the Company is not presently generating revenues, its ability to continue operations will be largely reliant on its continued attractiveness to equity investors. The Company is expected to incur operating losses as it continues to expend funds to develop its business operations. Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of Nextleaf following will require substantial additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the going out of business. The primary source of funding available to the Company will consist of equity financing. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

Requirement for Licenses

The Company's facility received Health Canada licensing (Standard Processing License) on September 9, 2019. The license holder is Nextleaf Labs Ltd. (see pending acquisition of Nextleaf Labs Ltd. by the Company, "Share Purchase Agreement – Nextleaf Labs Ltd." within "Overall Performance"). The Company is required to remain in compliance with current and evolving Health Canada Regulations and City of Coquitlam requirements to ensure it operates in compliance with licensing and regulatory requirements for the duration of the license period and subsequent thereto in order to remain ongoing licensing and renewal. The Company's commercial operations and the ability to continue as a going concern are dependent on the Company acquiring the license from Nextleaf Labs Ltd., and remaining compliant.

Competition

The cannabis production industry is competitive in all of its phases. The Company will face strong competition from other companies in connection with such matters. Many of these companies have greater financial resources, operational experience and technical capabilities than Nextleaf. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable or at all. Consequently, the revenues, operations and financial condition of the Company could be materially adversely affected.

Because of early stage of the industry in which Nextleaf operates, the Company may face additional competition from new entrants. If the number of users of cannabis in Canada increases, the demand for products will increase and expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations.

FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of the following:

Financial assets:	Classification:	Subsequent measurement:
Cash	FVTPL	Fair value
Receivables	Amortized cost	Amortized cost
Subscriptions receivable	Amortized cost	Amortized cost
Due from related parties	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Loans receivable	Amortized cost	Amortized cost

Financial liabilities:	Classification:	Subsequent measurement:
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The Company's financial instruments with the exception of 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 Company is exposed to varying levels and degrees of risk, including credit risk, liquidity risk, and market risk as detailed in Note 11 to the financial statements for the year ended September 30, 2019.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Nextleaf prepares its financial statements in conformity with IFRS which requires management to make judgments estimates and assumptions that affect the report amounts of assets, liabilities and contingent liabilities at each reporting date and the reporting amounts of income and expenses during each reporting period. Nextleaf details its significant areas of estimation uncertainty, and significant areas of judgment within its significant accounting policies in Note 3 to its annual audited financial statements for the year ended September 30, 2019.

Effective October 1, 2018, the Company adopted IFRS 9 and IFRS 15 as noted above within "New Accounting Standards", the adoption of these standards did not result in any changes to the classification, measurement or carrying amounts of assets, liabilities, income and expenses.

The details of the Company's new accounting policy in connection with the adoption of IFRS 9, is disclosed in Note 2 to the financial statements for the year ended September 30, 2019.

APPROVAL

The Board of Directors of Nextleaf have approved the disclosures in this MD&A.