NEXTLEAF™ CSE:OILS

Nextleaf Solutions Ltd.

Management's Discussion & Analysis

September 30, 2020

NEXTLEAF SOLUTIONS LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis of the financial condition and results of operations of Nextleaf Solutions Ltd. (the "Company") for the year ended September 30, 2020 should be read in conjunction with the Company's annual audited financial statements and related notes for the year ended September 30, 2020. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All monetary amounts in this MD&A are expressed in Canadian dollars, or as otherwise indicated.

The information contained herein is presented as at **January 28, 2021** (the "MD&A Date"), unless otherwise indicated.

For the purposes of preparing this MD&A, Management, in conjunction with the Board of Directors, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of Nextleaf's common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com and on the Company's website at www.nextleafsolutions.com.

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.

COMPANY OVERVIEW

Nextleaf Solutions Ltd. ("Nextleaf") was incorporated under the laws of the province of British Columbia on December 8, 2016. The Company's head office is located at #304 – 68 Water Street, Vancouver, British Columbia, V6B 1A4 and its registered and records office is located at #600 – 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7. The Company's common shares trade on the Canadian Securities Exchange under the trading symbol "OILS", on the OTCQB Markets under the trading symbol "OILFF", and on the Frankfurt Stock Exchange under the trading symbol "L0MA".

Nextleaf is the world's most innovative cannabis extractor, having developed the 2nd largest portfolio of U.S. patents among all cannabis companies. The Company wholesales THC and CBD oils and provides extraction services through its wholly owned subsidiary Nextleaf Labs Ltd. ("Labs"). The Company's automated closed-loop extraction plant in Metro Vancouver has a design capacity to process 600 kg per day of dried cannabis biomass into distilled oils. Labs holds Health Canada licenses for standard processing and research under the Cannabis Act, allowing for a number of licenced activities including sensory evaluation of cannabis via human testing.

On July 29, 2020, the Company completed the acquisition of Labs. Labs is the owner of the Company's Standard Processing Licence which was issued by Health Canada on September 9, 2019 and Cannabis Research Licence which was issued by Health Canada on January 22, 2020.

Extraction and Purification Plant

The Company’s proprietary extraction and purification plant has been designed with an annual production capacity to process over 200,000 kg of dried cannabis biomass into distilled cannabinoid oils. The Company’s Coquitlam, BC based production 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.

Installation and assembly of the Company's large molecular distillation plant was commissioned in the first half of the 2020 calendar year. In total the oil refinery has processed over two tonnes of cannabis through the commissioning phase. The Company commenced its first commercial processing activity in August 2020.

Intellectual Property

The Company owns a portfolio of 12 issued U.S. patents, and 70 issued patents globally, for the extraction, purification, and delivery of cannabinoids. The Company’s patent portfolio pertains generally 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 is 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.

During the 2018 and 2019 fiscal years, Nextleaf's research and development team has focused on developing a proprietary system for industrial-scale extraction, refinement, and distillation of cannabinoids for what the Company believes to be the most efficient methods for producing THC and CBD distillate at scale within a highly-regulated environment. As legal cannabis becomes commoditized, efficiency and price are critical. The Company believes its patented solution is differentiated and will position Nextleaf as a low-cost supplier of high purity, standardized THC and CBD molecules. 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 and over 90%, the resulting distillate is easy to dose, formulate, and develop into innovative, value-added products for medical and adult-use markets.

The second chapter of Nextleaf's R&D roadmap is focused on leveraging innovative technology to power production of cannabis 2.0 formulated products at scale. Nextleaf believes formulation of fast-acting THC and CBD in cannabis beverage and edible format will prove disruptive to the alcohol and beverage industry. The Company plans to continue protecting intellectual property around its innovative technology.

The Company believes it will be in position to recognize significant revenue by licensing its intellectual property to companies operating legally within Canada and other countries where cannabis is legal.

OVERALL PERFORMANCE

For the fiscal year ended September 30, 2020, and through to the MD&A Date, the Company's performance is highlighted by the select milestones and achievements listed below.

Commercial Contracts and Revenue

- Supply Agreement with BevCanna Enterprises Inc. (September 2019);
- Royalty Agreement with a private British Columbia company (December 2019);
- Cannabis Extraction Agreement with a cannabis producer based in Ontario (April 2020);
- Cannabis Extraction Agreement with a cannabis producer based in Atlantic Canada (April 2020);
- Bulk THC Distillate Supply Agreement with a multi-license cannabis producer based in British Columbia (July 2020); and
- Cannabis Extraction Agreement with Eve & Co Incorporated (November 2020).

The Company's commercialization efforts are through licensing royalties, toll processing, and bulk cannabis concentrate supply. The industry has seen a strong demand for extraction and distillation services due to the legalization of cannabis 2.0 derivative products along with an ample supply across the industry of lower-quality dried cannabis and hemp biomass that has a shorter shelf life than oils. Nextleaf works with licensed cultivators and distributors that utilize third-party extractors under non-exclusive arrangements. The cost per milligram of molecules such as THC and CBD, and speed of processing services, are the primary decision drivers when customers select a third-party extractor. The Company expects to continue to announce additional commercial contracts through fiscal 2021.

During the year ended September 30, 2020, the Company recognized revenue of $235,467 in cannabis concentrate sales to a single customer, as well as $455,217 in licensing (royalty) fees from the Royalty Agreement executed in December 2019 with a private British Columbia company. Due to supply chain challenges and general market uncertainty as a result of COVID-19, Management's has not determined annual guidance of expected revenue to be generated from the contract in fiscal 2021.

Acquisition of Nextleaf Labs Ltd. and Health Canada Licences

On July 29, 2020, the Company acquired all the issued and outstanding common shares of Labs. Labs was a private holding company formerly owned by a consultant of the Company and incorporated in the province of British Columbia for the purpose of facilitating the Company's application process for a Standard Processing Licence. This Licence was issued to Labs by Health Canada on September 9, 2019. Additionally, Health Canada granted Labs a Cannabis Research Licence on January 22, 2020.

The acquisition of Labs was pursuant to a Share Purchase Agreement entered between the Company and Labs on October 11, 2019. On closing, the Company issued 1,000,000 common shares of the Company to the seller of Labs for total consideration of $285,000 ($0.285 per share). Labs' identifiable assets consistent of cash, receivables, and the Licences. Consideration was allocated based on the relative fair values of the identifiable assets acquired.

The acquisition of Labs has been accounted for as an asset acquisition in accordance with the guidance provided in IFRS 2, *Share-based Payments* as Labs does not qualify as a business according to the definition in IFRS 3, *Business Combinations* ("IFRS 3").

Private Placement – May 2020

On May 28, 2020, the Company completed a non-brokered private placement of units comprising two tranches for the aggregate issuance of 10,200,738 Units at a price of $0.30 per unit for gross proceeds of $3,060,221. Each unit consisted one common share and one common share purchase warrant with each warrant exercisable into one common share at an exercise price of $0.50 until either May 22, 2022 or May 28, 2022. Additionally, the Company issued 195,807 finders' warrants at a fair value of $34,200.

Government assistance

During the year ended September 30, 2020, the Company accrued or received $438,197 in government assistance proceeds comprising the Canada Emergency Wage Subsidy ("CEWS"), and Scientific Research and Experimental Development ("SR&ED") programs as detailed below.

Canada Emergency Wage Subsidy ("CEWS")

During the year ended September 30, 2020, the Company determined the impact on the Company's ability to generate revenue because of the COVID-19 pandemic, qualified the Company to apply for CEWS provided by the Government of Canada. As a result, the Company has accrued or received wages and salaries subsidies of $381,059.

Scientific Research and Experimental Development ("SR&ED")

During the year ended September 30, 2020, the Company filed and received approval of its SR&ED refund application for its fiscal 2019 expenditures. Accordingly, the Company received a refund of $57,138.

Canadian Emergency Business Account ("CEBA")

During the year ended September 30, 2020, the Company qualified for a government-guaranteed line of credit (government loan) of $40,000 which was interest-free until December 31, 2020. On January 1, 2021, the line of credit converted to a 2-year, 0% interest term loan to be repaid by December 31, 2022 at which time a 25% balance forgiveness ($10,000) will apply if the loan is repaid by such date. The Company has the option to exercise a 3-year term extension on the loan by December 31, 2022, if the loan is not repaid by then. At which time, the remaining unpaid balance of the loan will bear interest at 5% interest per annum during the extension period and must be paid in full by December 31, 2025. Funds can be used to pay non-deferrable operating expenses including payroll.

SELECTED ANNUAL INFORMATION

The following table sets out selected historical financial information of Nextleaf. Such information is derived from the audited financial statements of Nextleaf.

	September 30, 2020 $	(Restated) September 30, 2019	September 30, 2018 $
Revenues	**690,684**	-	523,408
Loss and comprehensive loss	**(5,953,616)**	(9,014,238)	(2,204,118)
Loss per share - basic and diluted	**(0.05)**	(0.10)	(0.04)
Total assets	**9,780,757**	9,710,837	5,063,449
Total liabilities	**2,518,370**	1,026,389	749,833
Shareholders' equity	**7,262,387**	8,684,448	4,313,616

DISCUSSION OF OPERATIONS

For the years ended September 30, 2020, and September 30, 2019

The Company's performance for the years ended September 30, 2020 and September 30, 2019 was as follows (amounts are rounded):

	September 30, 2020 $	(Restated) September 30, 2019 $	Change $
Revenue	691,000	-	691,000
Loss from operating expenses	(5,824,000)	(7,934,000)	2,110,000
Loss and comprehensive loss	(5,954,000)	(9,014,000)	3,060,000
Cash used in operating activities	(3,364,000)	(4,279,000)	915,000
Cash used in investing activities	(2,903,000)	(2,075,000)	(828,000)
Cash provided by financing activities	2,960,000	9,813,000	(6,853,000)

During the year ended September 30, 2020, the Company generated royalty revenue from the licensing of its intellectual property to an equipment manufacturer of approximately $455,000, coupled with approximately $235,000 in revenue from production activities involving the processing and sale of bulk cannabis concentrate to one of its customers. The Company commenced production activities during the three months ended September 30, 2020.

Certain components of loss from operating expenses and loss and comprehensive loss for the years ended September 30, 2020 and September 30, 2019 were as follows (amounts are rounded):

	September 30, 2020 $	(Restated) September 30, 2019 $	Change $
Investor relations and advertising	**(588,000)**	(1,118,000)	530,000
Professional fees and consulting	**(1,449,000)**	(1,179,000)	(270,000)
Wages and salaries	**(1,010,000)**	(569,000)	(441,000)
Government assistance	**438,000**	270,000	168,000
Other losses and write-offs	**(515,000)**	-	(515,000)

- Investor relations and advertising decreased for the year as a result of the Company's resources shifting from pre-commercial business into direct sales activities, and the decrease from the prior year of capital markets activity related to financings and a reverse takeover transaction with Nextleaf Innovations Ltd.
- Professional fees and consulting increased for the year as a result of increased corporate activity related to the growth and commercialization of the Company's processing facility and intellectual property.
- Wages and salaries increased over the prior year as a result of the Company hiring additional operations, production, and quality assurance staff members as the Company moved towards commissioning and commercialization during the year ended September 30, 2020.
- Government assistance increased over the prior year as a result of COVID-19 relief payments received or accrued from the Government of Canada (see "Government assistance" within "Overall Performance" above).

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, 2020	235,467	(2,268,924)	(0.02)
June 30, 2020	-	(1,020,754)	(0.01)
March 31, 2020	105,217	(1,343,476)	(0.01)
December 31, 2019	350,000	(1,320,462)	(0.00)
September 30, 2019 (restated)	-	(2,319,253)	(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)

FOURTH QUARTER RESULTS

The Company's performance for the three months ended September 30, 2020 and September 30, 2019 was as follows (amounts are rounded):

	September 30, 2020 $	(Restated) September 30, 2019 $	Change $
Revenue	236,000	-	236,000
Loss from operating expenses	(1,613,000)	(2,525,000)	912,000
Loss and comprehensive loss	(2,269,000)	(2,319,000)	50,000
Cash used in operating activities	(1,132,000)	(1,353,000)	221,000
Cash provided by (used in) investing activities	231,000	(418,000)	649,000
Cash (used in) provided by financing activities	(16,000)	577,000	(593,000)

During the three months ended September 30, 2020, the Company commenced commercial activities which included the production and sale of bulk cannabis concentrate in the amount of approximately $235,000. Notably, cash provided by investing activities during the three months then ended is merely a reflection of financial statement reclassifications and adjustments, and reclassifications between operating and investing activities from quarter to quarter.

Certain components of loss from operating expenses and loss and comprehensive loss for the three months ended September 30, 2020 and September 30, 2019 were as follows (amounts are rounded):

	September 30, 2020 $	(Restated) September 30, 2019 $	Increase (decrease) $
Investor relations and advertising	**135,000**	741,000	(606,000)
Professional fees and consulting	**450,000**	70,000	380,000
Other losses and write-offs	**515,000**	-	515,000

- Investor relations and advertising decreased over the comparative period as the Company shifted more resources and focus toward direct sales and commercialization, as compared to the prior year where the Company had initiated a significant investor relations program in the fourth quarter of the September 30, 2019 fiscal year in tandem with the receipt of its Standard Processing License from Health Canada.
- Professional fees and consulting increase over the comparative period primarily due to fees incurred in relation to increased patent application activity.
- Other losses and write-offs which related exclusively to the three months ended September 30, 2020, involved: (i) loss on loans receivable of $153,780 reflective of the forgiveness of principal and interest on the loan issued to Labs immediately prior to closing of the acquisition of Labs; (ii) Loss provision on other receivables of $181,602 reflective of an estimated loss on amounts owing on a loan and deposits from an equipment supplier; and (iii) write-off of equipment deposits of $179,449 relating to termination of an equipment contract with said supplier.

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, 2020, the Company had cash of approximately $989,000 and working capital of approximately $563,000.

Cash flow activities

For year ended September 30, 2020, cash decreased by approximately $3,307,000, which was driven by the following:

- Cash used in operating activities of approximately $3,364,000, driven by cash-based expenditures and fluctuations in working capital items, partially offset by government assistance payments received;
- Cash used in investing activities of approximately $2,903,000, primarily driven by purchases of extraction equipment and leasehold improvements totaling approximately $2,607,000 (in aggregate for all property and equipment purchases), and advances aggregating $275,000 (loans receivable), less the net effect of other payments, refunds, and net cash acquired on the acquisition of Labs.
- Cash provided by in financing activities of approximately $2,960,000, is attributable to the completion of a private placement which generated proceeds net of cash share issue costs of approximately $2,984,000. Financing activities is partially reduced by lease payments made on the Company's facility of approximately $64,000. Additionally, financing activities includes the receipt of a $40,000 loan from the Government of Canada pursuant to the Canada Emergency Benefit Account (CEBA) program.

SHARE CAPITAL INFORMATION

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

Issued and Outstanding

As at the MD&A Date, total issued, and outstanding common shares consists of 121,981,314 common shares. During the year ended September 30, 2020 and subsequent thereto, the Company had the following share issuances:

- On February 6, 2020, the Company issued 937,500 common shares with an aggregate fair value of $300,000 for the acquisition of cannabinoid formulations.
- Between April and June 2020, the Company issued 176,318 common shares pursuant to the Employee Equity Participation Plan (details below) for non-cash consideration at an aggregate fair value of $48,169. The fair value of the common shares was recorded as share-based payments expense and credited to share capital.
- On May 28, 2020, the Company completed a non-brokered private placement of units comprising two tranches for the aggregate issuance of 10,200,738 Units at a price of $0.30 per unit for gross proceeds of $3,060,221. Each unit consists one common share and one common share purchase warrant with each warrant exercisable into one common share at an exercise price of $0.50 until either May 22, 2022 or May 28, 2022.
- On July 3, 2020, the Company issued 68,126 common shares pursuant to the Employee Equity Participation Plan for non-cash consideration at an aggregate fair value of $19,416.
- On July 29, 2020, the Company issued 1,000,000 common shares pursuant to the acquisition of Labs (discussed above).
- In December 2020, the Company issued 418,823 common shares with an aggregate fair value of $71,200 ($0.17 per share) to two non-executive employees and a consultant as compensation for services rendered.
- In December 2020, the Company issued 911,765 common shares with an aggregate fair value of $155,000 ($0.17 per share) to two consultants for settlement of previously rendered services included within accounts payable and accrued liabilities.
- In January 2021, the Company issued 145,000 common shares on the exercise of stock options by an employee and certain consultants of the Company for proceeds of $50,750.

Stock options

As at the MD&A Date, the Company has 14,814,287 stock options outstanding.

Warrants

At the MD&A Date, the Company had 36,116,850 warrants outstanding.

Employee Equity Participation Plan

Effective April 1, 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 and during the year ended September 30, 2020, a total of 244,444 common shares of the Company have been issued to non-executive employees under the Plan.

OFF-BALANCE SHEET ARRANGEMENTS

Nextleaf does not utilize off-balance-sheet arrangements.

PROPOSED TRANSACTIONS

There are no proposed transaction as at the MD&A Date.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel compensation

The remuneration of key management for the years ended September 30, 2020 and September 30, 2019 is as follows:

	September 30, 2020	September 30, 2019
	$	$
Directors' fees	63,850	36,140
Management fees	469,100	732,024
Share-based payments	546,342	1,943,783
	1,079,292	2,711,947

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.

Related party balances

Related party balances as at September 30, 2020 and September 30, 2019 are as follows:

	September 30, 2020	September 30, 2019
	$	$
Balances included in accounts payable and accrued liabilities:		
Accounts payable - management fees	206,251	50,345
Accrued liabilities - Directors' fees	36,000	-
Balances included in receivables and prepayments:		
Prepaid management fees	38,900	60,000
Expense advances	-	8,573

Amounts are due to CEO, CFO, and CTO, and certain directors relating to management fees and/or directors' fees presented above. Prepaid management fees were those paid to the Company's CTO.

CHANGES IN ACCOUNTING POLICIES

New standard adopted

The Company adopted the following accounting standards that were effective for the Company beginning on October 1, 2019.

New standard IFRS 16 - Leases

IFRS 16 - *Leases* ("IFRS 16") replaced IAS 17, *Leases*. It became effective for the Company on October 1, 2019 (Q1 2020). IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 requires a single, on-balance sheet accounting model that is similar to current finance lease accounting. Leases become an on-balance sheet liability that attract interest, together with a new asset.

The most significant effect of the new standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would have formerly been accounted for as operating leases.

The Company has a lease on its processing facility including corporate offices. In the context of IFRS 16, a ROU asset of $380,160 and a lease liability of $407,405 were recognized as at October 1, 2019, in accordance with the modified retrospective approach, which resulted in an aggregate $27,245 increase to deficit. The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's weighted average incremental borrowing rate of approximately 10% on October 1, 2019. The ROU asset (recognized within property and equipment) was measured at an amount equal to the corresponding initial lease liability.

Refer to Note 2 within the Company's financial statements for more details on IFRS 16, and the Company's significant accounting policy in connection therewith.

New Interpretation IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 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 annual periods beginning on or after January 1, 2019.

There were no reporting changes as a result of adopting the new Interpretation.

Change in accounting policy

The Company has restated its consolidated financial statements as at and for the year ended September 30, 2019. Specifically, the statements of financial position, loss and comprehensive loss, cash flows, and changes in shareholders' equity have been restated to reflect the adoption of a voluntary change in accounting policy.

For the year ended September 30, 2019, the net impact on the financial statements of the voluntary change in accounting policy was a decrease of total assets of approximately $269,000, and an increase in loss and comprehensive loss by the same amount.

During the year ended September 30, 2020 (effective July 1, 2020), the Company adopted a voluntary change in accounting policy with respect to intangible assets and the recognition of application costs associated with patent filings as capitalized intangible assets. Previously, the Company capitalized costs relating to both the application and issuance of patents.

The Company's new policy on accounting for intangible assets is to expense all legal application costs (to professional fees and consulting) and capitalize only those costs related to patent filing fees.

The Company has determined that the voluntary change in accounting policy results in financial statements providing more reliable and more relevant information. The change in accounting policy is consistent with the accounting conceptual framework for the recognition of assets. This change in accounting policy has been applied to all the Company's issued and pending patents.

As required by IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, the change in accounting policy has been made retrospectively and comparatives have been restated accordingly for the annual periods presented, as if the policy had always been applied. Notably, the Company first applied its former intangible asset policy during the year ended September 30, 2019, resulting in the initial recognition of intangible assets during the three months ended September 30, 2019. Accordingly, there is no impact on the financial statements as at and for the year ended September 30, 2018, resulting from the new accounting policy.

FINANCIAL RISK INSTRUMENTS

The Company's financial instruments consist of the following:

Financial assets:	Classification:	Subsequent measurement:
Cash	FVTPL	Fair value
Accrued receivables	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Loans receivable	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 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 10 to the financial statements.

Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. During the year ended September 30, 2020, the Company's cannabis concentrate sales (sale of bulk distillate) was generated from one customer, and the Company's licensing revenue was generated from a single customer.

CRITICAL ACCOUNTING ESTIMATES

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 2 to its annual audited financial statements for the year ended September 30, 2020.

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.

Global Pandemic (COVID-19)

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations. There are travel restrictions and health and safety concerns that may delay the Company's operational objectives. Operations depend on safeguarding all personnel during the outbreak, which may be prohibitive in certain aspects. Nonetheless, the Company has implemented prevention measures at its facilities. Various Government wage and loan subsidies are available to qualified companies to assist them with operating costs during the pandemic. The Government continues to update its COVID-19 relief programs, which may qualify the Company for additional assistance. As at September 30, 2020, the Company has qualified for and accrued or received a $40,000 loan from the Government of Canada, and wage subsidies of $381,059.

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 has recently commenced 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 is expected to require additional financing to fund further growth. 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 Licences

The Company's production facility received Health Canada licensing (Standard Processing Licence) on September 9, 2019, and on January 22, 2020, Health Canada granted a Cannabis Research Licence to Nextleaf Labs Ltd., for the Company's production facility. The licenses are held by Nextleaf Labs Ltd. a subsidiary of the Company (acquired on July 29, 2020) (see "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 licence 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 licence 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.

APPROVAL

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