

NEXXTLEAF™



**Nextleaf Solutions Ltd.
Management's Discussion & Analysis
For the nine months ended
June 30, 2021**

NEXTLEAF SOLUTIONS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
AMENDED AND RESTATED

The following discussion and analysis of the financial condition and results of operations of Nextleaf Solutions Ltd. (the "Company") for the nine months ended June 30, 2021 should be read in conjunction with the Company's condensed amended and restated interim consolidated financial statements for the nine months ended June 30, 2021 (the "financial statements"), and the annual audited financial statements 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 **August 30, 2021** (the "MD&A Date").

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 "LOMA".

Nextleaf is an innovative cannabis processor that owns one of the largest portfolios of U.S. patents for the extraction, purification, and delivery of cannabinoids. Through its wholly-owned subsidiary Nextleaf Labs Ltd ("**Labs**"), a licenced processor, the Company is a low-cost producer of cannabis distillate and private label THC & CBD oils. Nextleaf's automated closed-loop extraction plant in Metro Vancouver has a design capacity to process 600 kg of dried cannabis into oil per day. The Company has been issued 16 U.S. patents and over 80 patents globally. Nextleaf is developing proprietary delivery technology through its Health Canada research licence, including conducting sensory evaluation of cannabis via human testing. The Company's patent pending Rapid emulsification technology by OILS™ powers differentiated edible cannabis products. Nextleaf is commercializing its issued and pending patents through licensing of intellectual property, providing extraction services, and supplying cannabis oils to qualified Canadian and international business-to-business partners under their own brand.

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 extraction plant 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. The Company commenced its first commercial processing activity in August 2020.

Intellectual Property

The Company owns a portfolio of 16 issued U.S. patents, and over 80 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 nine months ended June 30, 2021, and through to the MD&A Date, the Company's performance is highlighted by selected milestones and achievements listed below.

Commercial Contracts, Revenue and Corporate Milestones

- Cannabis Extraction Agreement with Eve & Co Incorporated (November 2020);
- Cannabis Extraction Services Agreement with a Canadian licenced producer which operates cannabis production and distribution facilities across Canada (December 2020);
- Completion of over 100kg of high purity CBD distillate (December 2020);
- Single month revenue of \$1,257,000 from processing and bulk sales activities (December 2020);
- Generating single month gross profit, excluding excess facility capacity, of \$602,000 from processing and bulk sales activities (December 2020);
- Received amendment to existing Cannabis Research Licence from Health Canada to conduct controlled human administration trials for sensory evaluation of cannabis products (January 2021);
- Hemp Extraction Agreement with Green Light Solutions (February 2021); and
- Securing a \$3,000,000 convertible debenture financing (March 2021);
- Received amendment to existing Standard Processing Licence from Health Canada to allow for direct to province sales (April 2021);
- Acquired rights to the award-winning, prohibition-era brand, "Glacial Gold" (May 2021); and
- Entered into cannabis product supply agreement with the BC Liquor Distribution Branch (July 2021).

The Company's commercialization efforts are through licensing royalties, toll processing, bulk cannabis concentrate supply and branded consumer cannabis products. The industry has seen a demand for extraction and distillation services driven 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 licenced 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 nine months ended June 30, 2021, the Company recognized revenue of approximately \$2,043,000 in cannabis concentrate sales to multiple customers. 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 existing processing and supply the contracts in fiscal 2021.

Government assistance

During the nine months ended June 30, 2021, the Company accrued or received approximately \$550,000 in government assistance proceeds comprising the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS").

DISCUSSION OF OPERATIONS

For the three months ended June 30, 2021 and June 30, 2020

The Company's performance for the three months ended June 30, 2021 and June 30, 2020 was as follows (amounts are rounded):

	June 30, 2021 \$	June 30, 2020 \$	Change \$
Three months ended			
Revenue	656,000	-	656,000
Gross margin	(58,000)	-	(58,000)
Loss from operating expenses	(912,000)	(1,083,000)	171,000
Loss and comprehensive loss	(946,000)	(1,021,000)	75,000
Cash used in operating activities	(1,065,000)	(643,000)	(422,000)
Cash used in investing activities	(142,000)	(1,235,000)	1,093,000
Cash provided by financing activities	94,000	3,008,000	(2,914,000)

Cash flows used in investing activities for the three months ended June 30, 2021 reduced due to a significant reduction in purchases of property and equipment and a reduction of leasehold work on the Company's facility. Cash flows provided by financing activities during the three months ended June 30, 2021, was lower as a result of a private placement being completed in May 2020, the comparative period, compared to no financing activity during the current quarter aside from the exercise of warrants.

Cash flows used in investing activities for the three months ended June 30, 2020 was driven by an increase in purchases of property and equipment and payments for intangible assets by approximately \$1,083,000 in aggregate \$1,161,000, as well as funds advanced for a loan to Labs of \$75,000. Cash flows provided by financing activities during the three months ended June 30, 2020, was driven by a private placement completed in May 2020 which generated gross proceeds of approximately \$3,060,000.

For the nine months ended June 30, 2021 and June 30, 2020

The Company's performance for the nine months ended June 30, 2021 and June 30, 2020 was as follows (amounts are rounded):

	June 30, 2021	June 30, 2020	Change \$
Nine months ended	\$	\$	
Revenue	2,043,000	455,000	1,588,000
Gross margin	(477,000)	-	(477,000)
Loss from operating expenses	(3,198,000)	(4,211,000)	1,013,000
Loss and comprehensive loss	(3,424,000)	(3,685,000)	261,000
Cash used in operating activities	(1,874,000)	(2,232,000)	358,000
Cash used in investing activities	(185,000)	(3,134,000)	2,949,000
Cash provided by financing activities	3,082,000	2,976,000	106,000

Revenue

During the three months ended June 30, 2021, the Company earned processing revenues from cannabis concentrate sales of approximately \$656,000 from multiple customers, the increase in revenue during the period was a result of the onboarding of new clients and reorders from existing clients

During the nine months ended June 30, 2021, the Company earned processing revenues from cannabis concentrate sales of approximately \$2,043,000 from multiple customers, the increase in revenue during the period was a result of the Company's commencement of commercial processing during the end of fiscal 2020, and resulting direct sales of bulk concentrates to B2B clients increasing through 2021 with increase available inventory for sale. The Company's first fiscal quarter was lifted by a strong month in December, which with sales consistently at that level, management expects would provide positive cash flow from operations on a go forward basis. The Company expects to maintain opportunities and sales activity as the cannabis industry continues to mature and work towards market equilibrium for supply and demand. The Company is focused on building on existing clients, expanding from one-off orders to longer term more consistent supply agreements over the course of fiscal 2021 and 2022.

Cost of Sales

Cost of sales reflects the cost to extract and process the cannabis concentrates as well as the management of product throughput and inventory levels. Cost of sales includes the purchase of material and services such as the purchase of dried cannabis, freight expenses, sub-contractors, employee wages and benefit costs, and other operating expenses such as repairs and maintenance, plant overhead, as well as depreciation.

Gross Margin

The Company's cost of sales exceeded revenue for the nine months ended June 30, 2021, as a result of utilization level of the facility. As the Company continues to increase production levels and monetize finished cannabis oils, the Company expects to see Gross Margin positivity on a more consistent basis.

Certain components of loss from operating expenses and loss and comprehensive loss for the three months ended June 30, 2021 and June 30, 2020 were as follows (amounts are rounded):

	June 30, 2021	June 30, 2020	Change \$
Three months ended	\$	\$	
Operating expenses			
Investor relations and advertising	110,000	160,000	(50,000)
Professional fees and consulting	281,000	349,000	(68,000)
Research, extraction and lab supplies	4,000	147,000	(143,000)
Wages and salaries	304,000	60,000	244,000

Certain components of loss from operating expenses and loss and comprehensive loss for the nine months ended June 30, 2021 and June 30, 2020 were as follows (amounts are rounded):

	June 30, 2021 \$	June 30, 2020 \$	Change \$
Nine months ended			
Operating expenses			
Amortization	262,000	6,000	256,000
Depreciation	10,000	534,000	(524,000)
Investor relations and advertising	303,000	453,000	(150,000)
Professional fees and consulting	760,000	999,000	(239,000)
Research, extraction and lab supplies	34,000	251,000	(217,000)
Wages and salaries	790,000	576,000	214,000

- Amortization is taken on intangible assets, primarily its nano emulsion technology, which significantly increased during the period as amortization on the nano emulsion technology was recognized for the first time during the three months ended September 30, 2020. Additionally, the Company acquired and commenced amortization on its licenses during the same three month period.
- Depreciation is taken on property and equipment, which significantly decreased as a result of the allocation of depreciation to inventory and cost of sales which began during the three months ended September 30, 2020, when the Company commenced commercial activities. Prior to commercial activity, depreciation expense was included within operating expenses in its entirety.
- Research, extraction and lab supplies similarly decreased as a result of the allocations to inventory and cost of sales which began during the three months ended September 30, 2020, when the Company commenced commercial activities.
- Investor relations and advertising decreased as the company focused increased efforts on leveraging existing commercial and corporate relationships, as well as reduced tradeshow and related marketing activity during the period, primarily related to the impacts of COVID-19.
- Professional fees and consulting decreased as a result of commercialization of the facility and a reduction in consulting services related to the commissioning the extraction facility.
- Wages and salaries is reflective of the ramp-up in operations and the increase in staffing levels both at the corporate level and in production, accordingly.

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 \$
June 30, 2021	655,861	(945,613)	(0.01)
March 31, 2021	130,515	(1,189,084)	(0.01)
December 31, 2020	1,256,589	(911,510)	(0.01)
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)

There are no significant seasonal variations in quarterly results as the Company is not subject to significant seasonality in its commercial, research and corporate activities. While the quarterly results have ranged from a loss of approximately \$911,000 to \$2,319,000, the average loss has remained relatively consistent at about \$1,415,000 – generally trending lower which is largely attributable to the Company reducing research and costs associated with commissioning the extraction facility, while revenue from commercial activity increases.

Variations in loss and comprehensive loss for certain of the above periods were affected primarily by the following factors:

- The quarter ended June 30, 2021, reduction from the previous quarter was attributable to a significant reduction in negative gross margin which decreased to (\$57,583) from (\$445,176) quarter over quarter, as revenue from bulk sales increased during the quarter as well as lower operating expenses partially offset by lower government assistance levels.
- The quarter ended March 31, 2021, was reflective of a general increase in processing activities as the Company built up bulk concentrate inventory - with increased direct costs reflective of the increased activity.
- The quarter ended December 31, 2020, included significantly increased revenue as a result of processing activity scaling up during the period – with costs of commissioning the extraction facility tapering off during the period.
- The quarter ended September 30, 2020, included significant costs as the Company finalized commissioning of the extraction facility and commenced initial commercial production – these costs are expected to taper off as production level normalizes going forward.
- The quarters ended June 30, 2019 to June 30, 2020 represented a focus primarily on development of intellectual property, obtaining necessary licensing and developing the extraction facility. Variation during this period was largely attributable to share-based compensation during a given period and increased corporate activity driven by financing activities or specific phases of development of the extraction facility.

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 June 30, 2021, the Company had cash of approximately \$2,013,000 and working capital of approximately \$126,000, which includes about \$2,000,000 related to the Company's convertible debt. Excluding the convertible debt, the Company had adjusted working capital of about \$2,100,000.

Cash flow activities

For the nine months ended June 30, 2021, the Company generated positive cash flows of approximately \$1,024,307 driven by the issuance of a convertible debenture for gross proceeds of \$3,000,000. A summary of the Company's cash flows is as follows:

- Cash used in operating activities of approximately \$1,874,000 was driven by cash-based expenditures and fluctuations in working capital items exceeding cash inflows from revenue, collections of receivables, and government assistance proceeds received;
- Cash used in investing activities of approximately \$185,000, was driven by leasehold improvements and other purchases of equipment, and patent issuance costs (payments for intangible assets), partially offset from proceeds on disposal of equipment; and
- Cash provided by financing activities of approximately \$3,082,000 was attributable to net proceeds on the issuance of a convertible debenture of \$2,821,000, and the issuance of common shares for the exercise of stock options and warrants of approximately \$310,000, partially offset by lease payments made on the Company's facility totalling \$49,000.

Refer to "Discussion of Operations" above for a discussion on cash flow activities for the three months ended June 30, 2021 and June 30, 2020.

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 125,318,208 common shares. Subsequent to June 30, 2021 the Company had the following transactions in relation to shareholders' equity:

- In July 2021, 9,395,750 warrants expired unexercised.

- In August 2021, the Company issued 25,000 common shares on the exercise of warrants pursuant to the warrant exercise incentive program for proceeds of \$6,625.
- In August 2021, the Company issued 761,905 common shares at a fair value of \$160,000 (\$0.21 per share) to consultants of the Company as compensation for services provided.

Stock options

As at the MD&A Date, the Company has 16,164,287 stock options outstanding.

Warrants

At the MD&A Date, the Company had 18,525,795 warrants outstanding.

OFF-BALANCE SHEET ARRANGEMENTS

Nextleaf does not utilize off-balance-sheet arrangements.

PROPOSED TRANSACTIONS

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

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel compensation

The remuneration of key management for the nine months ended June 30, 2021 and June 30, 2020 is as follows:

	June 30, 2021	June 30, 2020
	\$	\$
Directors' fees	46,350	49,570
Management fees	344,600	358,700
Share-based payments	-	564,753
	390,950	973,023

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 June 30, 2021 and September 30, 2020 are as follows:

	June 30, 2021	September 30, 2020
	\$	\$
Balances included in accounts payable and accrued liabilities:		
Management fees	316,500	206,251
Directors' fees	78,840	36,000
Balances included in receivables and prepayments:		
Prepaid management fees	-	38,900

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

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in the financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its financial statements for the year ended September 30, 2021.

There were no new accounting policies adopted or changes in the accounting policies applied during the nine months ended June 30, 2021. However, the Company expanded its financial instruments policy to give effect to the recognition of the convertible debenture. Refer to Note 2 in the financial statements for details.

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
Convertible debenture	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 11 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 nine months ended June 30, 2021, the Company's cannabis concentrate sales (sale of bulk distillate) was generated from multiple customers.

CONTINGENCY

As at September 30, 2020, the Company was owed an aggregate \$801,868 from an equipment supplier relating to amounts advanced by the Company as a promissory note ("loan") totaling \$526,535 including principal and accrued interest (Note 15) and amounts advanced as deposits for cannabis extraction equipment totaling \$275,333 (Note 6). Given the uncertainty surrounding repayment by the equipment supplier, the Company recognized a loss provision on the principal and interest of the loan, and the equipment deposit. The provision includes a full write-off of accrued interest on the loan (\$26,535), plus an accumulated provision through to June 30, 2021, of \$457,757 on the loan principal and the equipment deposit, as detailed in the table below.

As at June 30, 2021, the aggregate amount owed from the equipment supplier after recognition of loss provisions is \$317,576 (September 30, 2020 - \$620,266).

On December 9, 2020, the Company issued the equipment supplier a demand notice requesting repayment of the equipment deposit and loan in full by December 17, 2020 (not paid). Accordingly, the Company commenced legal action on January 6, 2021 by way of issuing a notice of claim against the equipment supplier. On February 12, 2021, the equipment supplier issued a statement of defence and counterclaim involving a third party. The Company does not believe that there is any substantive merit to any of the claims asserted against it and denies that any of the claims are supported by evidence.

To the date of these financial statements, the Company and the equipment supplier are negotiating terms for the repayment to the Company of principal and interest on the loan, and the refund of equipment deposits. Moreover, there have been no material developments in respect of this matter and the claims have not been contested in the courts.

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.

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 licencing (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 licences 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 licencing and regulatory requirements for the duration of the licence period and subsequent thereto in order to remain ongoing licencing 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.