UBIKA ALPHA

May 8, 2019

Nextleaf Solutions Ltd. (CSE:OILS | $0.67 | BUY $1.65)

Equity Research: Healthcare - Cannabis

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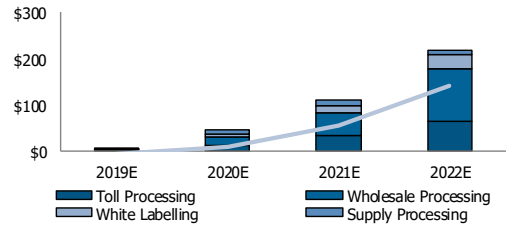
NEXTLEAF SOLUTIONS LTD.			CSE:OILS
(Currency is CAD$, unless noted otherwise)			
Last Price			$0.67
Target Price			$1.65
Potential Return			146%
Net Asset Value Per Share			$2.06
52 Week Low / High		$0.30 /	$0.83
Average Daily Volume (30-Day)			2,071K
CAPITALIZATION		Basic	Diluted
Shares Outstanding (M)		107.0	146.4
Market Capitalization ($M)			$71.7
Enterprise Value ($M)			$62.7
Cash Balance ($M)			$9.0
Total Debt ($M)			$0.0
OILS OPERATIONS	**2019E**	**2020E**	**2021E**
Basic SO at Year End (M)	113.1	123.1	145.1
Biomass Processing Volume (kg)	1,225	10,030	25,762
Crude Produced (kg)	167	896	1,893
Distillate Produced (kg)	0	316	1,084
Total Revenue ($M)	$6.1	$54.2	$125.2
EBITDA ($M)	-$5.2	$9.2	$54.0
FCF ($M)	-$10.5	$3.4	$33.3
Total CAPEX ($M)	$5.0	$3.3	$1.0
CFPS	-$0.09	$0.06	$0.25
EPS	-$0.07	$0.03	$0.23
Cash At Year End ($M)	$1.2	$9.2	$50.2
Debt At Year End ($M)	$0.0	$0.0	$0.0

RELATIVE VALUATION	EV/EBITDA		EV/SALES	
	2020E	**2021E**	**2020E**	**2021E**
Nextleaf Solutions	6.8x	1.2x	1.2x	0.5x
Extraction Companies	17.7x	8.1x	4.4x	2.5x
CAN-Based Major Cultivators	40.2x	20.1x	9.8x	6.0x
US-Based Operations	11.8x	8.0x	3.6x	2.9x

REVENUE & EBITDA FORECAST ($M)



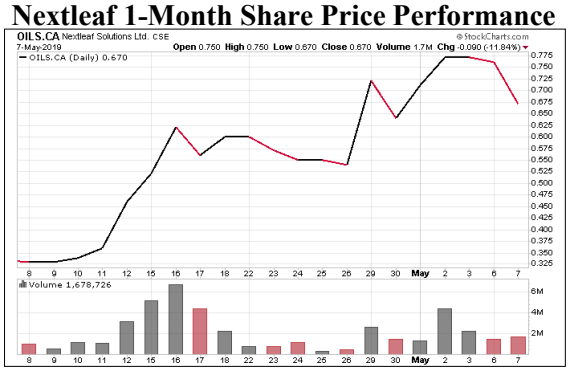
MAJOR SHAREHOLDERS

Management and Insiders (17%)

Disclosure: 1, 3 (See back page for further details)

Source: Ubika, Capital IQ

Nextleaf 1-Month Share Price Performance



Source: www.stockcharts.com

DRIED CANNABIS IS OLD NEWS - OILS IS NEXT!

COMPANY DESCRIPTION

- **Nextleaf Solutions Ltd. ("Nextleaf") is a Canadian 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.** Based on one shift per day, Nextleaf expects the Phase One buildout of its facility to have an estimated annual processing capacity of 100,000 kg of dried cannabis biomass. All parts and components of the ethanol-based system are designed to eventually run 24 hours a day, 7 days a week. Consequently, the facility could theoretically increase output by more than double by operating around the clock.

INVESTMENT THESIS

- **Focus on R&D and process development vs. large scale cultivation positions Nextleaf one to two years ahead of the competition.** OILS has patented and scaled its extraction, refinement, and distillation process, producing premium and highly concentrated distillate that is odourless, tasteless, and standardized. The Company recently completed the initial build-out of its ~6,500 sq ft. facility and currently has three issued patents, including one issued U.S. patent on the entire end-to-end process (from biomass preparation to molecular distillation).
- **Nextleaf's patented ethanol extraction method(s) enable higher margin biomass processing at scale.** The processing capacity with Nextleaf's patented ethanol technology is estimated to be ~60 kg/ hour, as compared to ~5 kg/hour using a comparably-sized supercritical CO_2 extraction system (which requires greater CAPEX for a similarly-sized system).

VALUATION

- **We are initiating coverage of Nextleaf Solutions Ltd stock with a BUY rating and a target price of $1.65/share.** We utilize a 50/50 blended net asset value (NAV) and EV/EBITDA methodology for our valuation. We utilize a fully-financed share-count, which assumes two raises for $8.0M, as well as all options and warrants that are ITM.
- **Trades at a significant discount to peers.** OILS currently trades at 6.8x our 2020E EBITDA estimate, a discount to extraction companies, which trade at an average of 17.7x. We believe this gap should close over time once more "seed-to-sale" Canadian producers continue to miss expectations, and as more eyes turn to extraction plays.

POTENTIAL CATALYSTS

- Q3/19 – Complete equipment commissioning in processing facility
- Q3/19 – Secure contract(s) with licensed cultivators
- Q3/19 – Edibles and infused products are legalized for medical and recreational markets by Health Canada
- Q4/19 – Facility to be licensed with the Standard Processing License from Health Canada
- Q1/20 – Facility to be licensed to sell cannabis extracts & oils

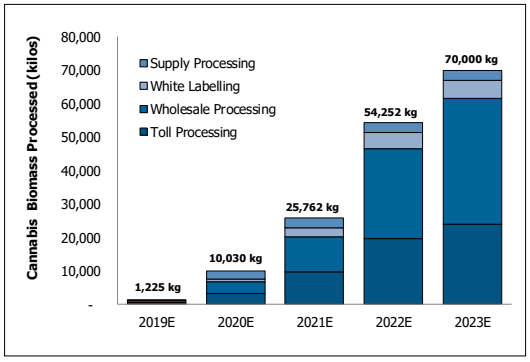
Figure 1: Company Logo

Source: Company Website

Figure 2: Refinement and Purification Room

Source: Nextleaf Solutions

Figure 3: Annual Production Outlook
(70% utilization of 100,000 kg/year capacity, assuming 1 shift per day, 5 days per week.)



Source: Ubika

COMPANY HIGHLIGHTS

- **An important catalyst for the stock will be when Nextleaf's facility is licensed with a standard processing licensing from Health Canada.** The standard processing license will allow Nextleaf's facility to begin to accept biomass from cultivators. The sales license can be issued to the facility once product verification/ testing has been demonstrated and approved by Health Canada. We estimate Nextleaf's purpose-built facility should be completed (with processing infrastructure) by Q4/19, and we estimate the facility is expected to be licensed by Q4/19.
- **Portfolio of issued and pending patents for the process of producing cannabinoid-rich distillate represents significant value.** First and foremost, Nextleaf is a science and innovation focused company. Nextleaf has filed 23 patents in the U.S., Canada, the EU, Australia, Mexico, Colombia, and Jamaica and plans to file eight more in the next 12-months.
- **First publicly-traded company to be issued a patent for the end-to-end, industrial-scale process for the extraction and purification of cannabinoids.** On March 28, 2019, the Company announced that it had received a U.S. patent for its proprietary extraction, refinement, and distillation process for cannabis (issued on June 5, 2018). OILS has also been granted a standard patent for this proprietary process from the Australian patent agency, IP Australia, and a U.S. patent for its proprietary cold filtration process.
- **Technology enables the processing of highly concentrated THC or CBD distillate.** With Nextleaf's technology, the resultant THC or CBD distillate is tasteless and odorless, with a standardized potency. This distillate is expected to be used in a wide range of cannabis products, including vape pens, edibles, oils, beverages, & topicals. As oil-infused products, like edibles, beverages, and topicals, are legalized in Canada and other international markets, we believe that Nextleaf's process could significantly change how these products are manufactured at scale.
- **Centralized processing facility.** Nextleaf has a 6,540 sq. ft facility located in the Greater Vancouver Area, British Columbia, Canada. The facility can process 100,000 kg of biomass per year. We note this is based on one 8-hour shift, 5 days per week. Theoretically, if more shifts were added, oil production could increase by a factor of 2 to 3 times. We have provided a sensitivity analysis on the impacts of an increase in capacity utilization on Page 11.

COMPANY HIGHLIGHTS CONTINUED

Small number of extraction-focused companies vs. producers leads to competitive advantages and potential for revaluation. By our estimates, there are currently only five publicly listed pure-play Canadian extraction-focused companies (no cultivation), and of those, Nextleaf's facility is not yet licensed. For reference, we have tracked ~90 Canadian based cannabis companies. Furthermore, we estimate that of the ~$14B in capital raised by the industry in 2018 (Fortune), ~80-90% was allocated towards large-scale cultivation. In our opinion, within a one-to-two-year time frame, there will be a significant revaluation of these companies and that large and intermediate Canadian cultivators will have to either; 1) contract these extraction companies to assist with excess biomass, or; 2) target them for M&A purposes.

Using a food-grade, ethanol-based primary extraction process, Nextleaf's process can achieve a much higher throughput* at ~60 kg/hour, compared with similar-sized supercritical CO_2 systems, which can only process 5 kg/hour. Importantly, this solvent-based process allows for the purchase of lower cannabinoid content trim or hemp (<10% THC or CBD) from cultivators. Nextleaf's facility can then process this trim into a high-purity distillate oil (~90-95% cannabinoid purity), which can be used in cannabis infused products. Additionally, due to the scalability and higher throughput of the proprietary technology, the facility creates more competitive pricing opportunities for toll processing and white label production than its current competitors. In our view, cannabis biomass price compression is likely to happen in the next 1-2 years, as roughly 21.8M sq. ft of cultivation space comes online (Financial Post). As a result, we believe that due to the scalability of Nextleaf's facility, the Company can undercut its direct competitors and gain significant market share in the extraction market. Of note, the Company's state-of-the-art facility is designed to adhere to EU Good Manufacturing Practices (EU-GMP) requirements, which meet and exceed Health Canada's specifications for cannabis oil.

Once licensed, the Company's facility can provide processing to licensed cultivators, and subsequently enable the sale of its supply to qualified B2B partners. Services and solutions at that point are likely to include toll and wholesale processing, as well as white-label production of products, such as vape pens. Processing customers may include; 1) standard cultivators, 2) micro cultivators, 3) hemp farmers, 4) standard processors, and 5) potential international imports. B2B partners may include provincial distributors, retailers, medical sales, or other licensed standard processors.

**defined as the amount of biomass that can pass through the system per unit of time*

Figure 4: Extraction Room
(Processing equipment not shown)

Source: Nextleaf Solutions

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COMPANY OVERVIEW

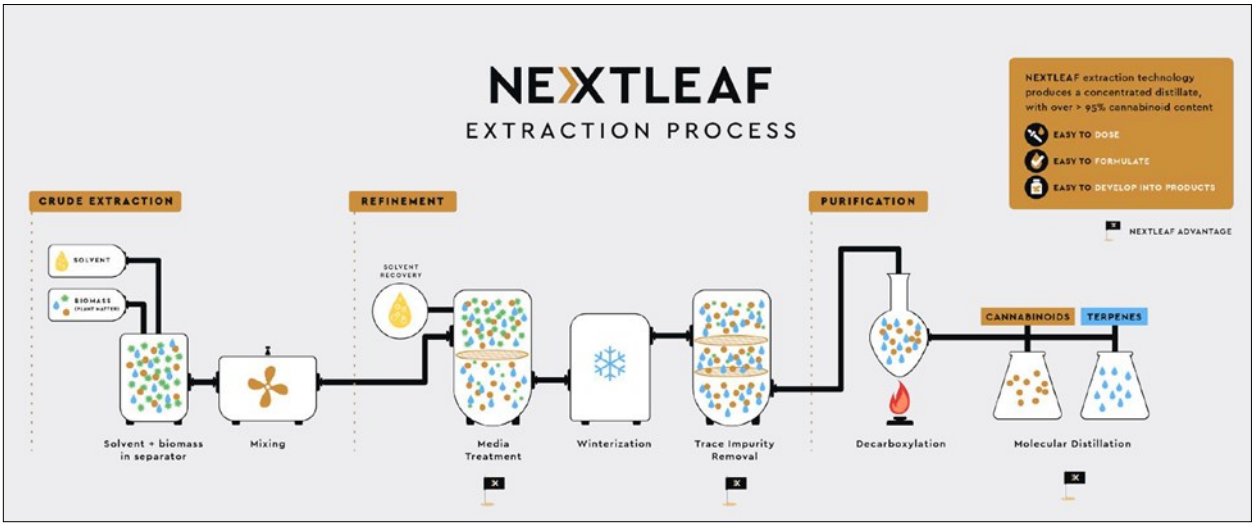
Within a one-hour drive of Nextleaf's processing facility, there is an estimated ~9M sq. ft of licensed and proposed cannabis greenhouse space that is anticipated to yield 108,000 kg of waste trim and 300,000 kg of dried flower per year. In our view, an abundant supply of cannabis biomass provides both a significant opportunity for Nextleaf's facility to contract out toll processing and white label production. We believe that both small and large cannabis cultivators are most likely going to have to sell their dry cannabis for extraction. This is because the biomass needs to be processed, otherwise, the value of the dry cannabis is quickly depreciated in within 6 to 12 months. The difference in shelf-life is meaningful considering extracted cannabis has a shelf-life of more than 3 years. Additionally, many small cultivators and hemp farmers lack extraction, purification and processing capacity due to high CAPEX requirements, and likely have no other options other then to contract out extraction as a service (EaaS) to extraction processing companies.

Nextleaf's patented ethanol extraction method enables its facility to effectively process large amounts of biomass at scale, leading to lower CAPEX and OPEX, and higher efficiencies than its direct competitors. The difference in scaling between using ethanol and supercritical CO_2 for primary cannabis extraction appears very significant. As legal cannabis production in Canada continues to increase, cost-efficient, scalable, cannabis extraction and processing technology is likely going to be required to support a rapidly-growing demand for value added cannabis products, such as vape pens, edibles, beverages, and topicals.

Nextleaf's patent strategy is to apply for a U.S. patent first and other jurisdictions there after. We believe that this patent strategy should allow Nextleaf to have the best opportunity to protect its intellectual property globally, as the U.S. is known for its strong patent protection laws. The U.S.'s judicial system is also believed to have a strong influence on other jurisdictions, such as Canada and the European Union. With patented IP that can produce a 95% purity cannabis distillate, Nextleaf could also license its technology to licensed cultivators which could result in material revenues for the Company.

Nextleaf's patented extraction process improves upon traditional extraction methods that only use CO_2 or ethanol to produce crude cannabis extract. The process allows Nextleaf's facility, once licensed, to turn cannabis biomass or crude cannabis oil into a refined, high-purity oil that is tasteless and odourless, which can be standardized and/or water soluble. In our view, standardization is important not only for public safety, but to successfully comply with Health Canada's strict regulations. Looking towards the future from a pharmaceutical perspective, in order to be issued a drug identification number (DIN) from Health Canada, or the FDA, every single capsule/tablet must meet specific dosage requirements, and each pill must have an effect that is consistent. Additionally, a standardized dosage gives patients and recreational users confidence in the consistency of the product. Think of a bottle of Tylenol - when is the last time a 200 mg Tylenol capsule did not have a standardized dosage and form?

Figure 5: Nextleaf's Extraction Process



Source: Nextleaf Solutions

COMPANY OVERVIEW CONTINUED

Strong management track record. Management has a combined 20+ years experience in the cannabis industry and financing emerging growth companies. Importantly, the CEO and CFO of Nextleaf previously worked for Greywood Partners, which advised Peace Naturals, the first LP that was licensed to produce cannabis oil under the MMPR in 2015. Greywood also worked on German medical cannabis distribution in 2015. Peace Naturals was bought by PharmaCan, which eventually became **Cronos Group (TSX:CRON, $20.66 | N/R)** in 2016. In addition, Nextleaf's operations are led by the former Quality Assurance Person (QAP), Quality Assurance Manager, and Qualified Person in Charge (QPIC) at Canna Farms Ltd (BC's first LP), which was bought by **Vivo Cannabis (TSXV:VIVO, $0.74 | N/R)** in August 2018. We are confident that management can execute on their business plan given their extensive experience in emerging growth companies and relevant industry experience.

Well capitalized, tight capital structure. As of March 14, the Company closed its reverse takeover (RTO) financing of $5.0M at $0.35/unit, which is expected to be used to complete the build out of its 6,540 sq. ft. processing facility located in the Greater Vancouver Area, B.C. On April 22, Nextleaf announced a second $4.0M financing at $0.40/unit. Proceeds from this financing are expected to be used for more equipment, R&D, IR, and a longer runway. Currently, there are 93.0M basic shares outstanding (142.0M fully diluted) with 17% insider ownership.

Figure 6: Example of Nextleaf's Proprietary Purification Equipment

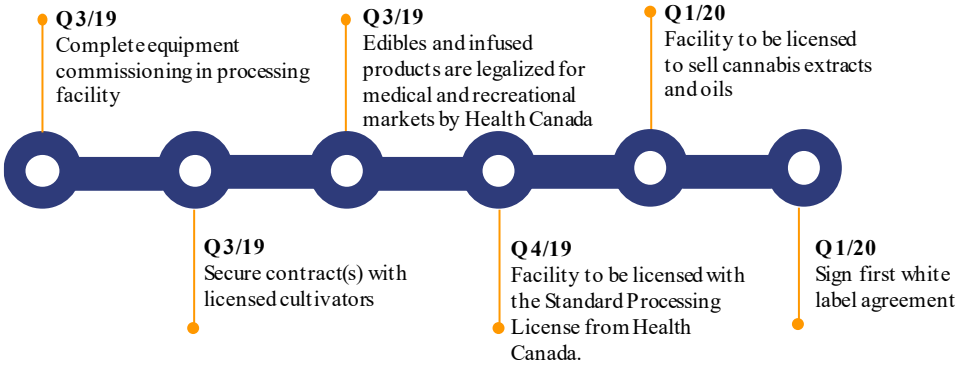
Source: Nextleaf Solutions

Figure 7: Formulations and R&D Room

Source: Nextleaf Solutions

NEXTLEAF CATALYSTS

During the course of the next 12-month period, we believe that there are numerous potential catalysts that could drive potential upside in Nextleaf's share price. These catalysts are summarized in the timeline below:



Recent Catalysts in the Pure-Play Extraction Sector

MediPharm's first reported operational quarter triggered a shift in the Canadian markets. On April 2, 2019, **MediPharm Labs (TSXV:LABS, $5.45 | N/R)** reported Q4/18 results and its first booked revenue. Revenue, gross margin, and EBITDA were $10.2M, $4.0M, and adj. EBITDA $4.2M, respectively. We believe this quarter was very significant for the cannabis market in Canada, as MediPharm was the first company to receive an oil license without being a cultivator. MediPharm ramped up quickly and surpassed many cultivators, in terms of reported revenue and profitability, that have been around for much longer (sales license since March 29, 2018). For comparison, as of the last-reported quarters, **Cronos Group (TSX:CRON, $20.66 | N/R)** (Q4/18), **TGOD (TSX:TGOD, $4.26 | N/R) (Q4/18),** and **HEXO (TSX:HEXO, $10.05 | N/R)** (Q1/19), reported revenues of $5.6M, $1.8M, and $13.2M, respectively. We highlight that HEXO's financials are unique because it includes three months of full recreational sales. For reference, the market caps of these highlighted companies are $7.4B, $1.2B, and $2.2B, respectively. Additionally, on April 24, **Valens GroWorks (CNSX:VGW, $4.06 | N/R)** reported Q1/19 results. Revenue was reported at $2.2M and the Company also announced it processed 1,800 kg of biomass in the quarter. Importantly, Valens reported it processed 5,000 kg of biomass in the first 55 days of Q2/19.

These two reporting events from MediPharm and Valens have sparked a sector-wide rally with pure-play cannabis extraction companies. The average return of extraction companies was 42.5% from April 1, 2019 to May 7, 2019, compared with –11.8% and –5.0% for Canadian major cultivators and US-based large cap MSOs, respectively. In comparison, Nextleaf's share price has returned 97.1% since the beginning of April (Figure 8).

NEXTLEAF CATALYSTS CONTINUED

Figure 8: Share Price Return April 1, 2019 to May 07, 2019

Company Name	Ticker	Price 01-April	Price 07-May	Return
Nextleaf Solutions Ltd.	CSE:OILS	$0.34	$0.67	*97.1%*
MediPharm Labs Corp.	TSXV:LABS	$3.70	$5.45	*47.3%*
Valens GroWorks Corp.	CSE:VGW	$2.91	$4.06	*39.5%*
Neptune Wellness Solutions Inc.	TSX:NEPT	$4.26	$5.82	*36.6%*
Radient Technologies Inc.	TSXV:RTI	$1.00	$0.92	*(8.0%)*
Pure Play Extraction Mean:				*42.5%*
Canopy Growth Corporation	TSX:WEED	$56.76	$64.03	*12.8%*
HEXO Corp.	TSX:HEXO	$9.01	$10.05	*11.5%*
OrganiGram Holdings Inc.	TSXV:OGI	$9.40	$9.44	*0.4%*
Aurora Cannabis Inc.	TSX:ACB	$12.20	$11.58	*(5.1%)*
The Green Organic Dutchman	TSX:TGOD	$4.83	$4.26	*(11.8%)*
Cronos Group Inc.	TAS:CRON	$24.90	$20.66	*(17.0%)*
Tilray, Inc.	NASDAQ:TLRY	US$63.01	US$47.22	*(25.1%)*
Village Farms International, Inc.	TSX:VFF	$20.34	$15.15	*(25.5%)*
CannTrust Holdings Inc.	TSX:TRST	$10.66	$7.88	*(26.1%)*
Aphria Inc.	TSX:APHA	$13.27	$8.99	*(32.3%)*
Canadian Major Cultivators Mean:				*(11.8%)*
Curaleaf Holdings, Inc.	CSE:CURA	$12.33	$14.45	*17.2%*
Origin House	CSE:OH	$11.65	$11.99	*2.9%*
Cresco Labs Inc.	CSE:CL	$15.65	$16.00	*2.2%*
Acreage Holdings, Inc.	CSE:ACRG.U	US$20.39	US$20.00	*(1.9%)*
Trulieve Cannabis Corp.	CSE:TRUL	$19.10	$17.40	*(8.9%)*
Charlotte's Web Holdings, Inc.	CSE:CWEB	$28.16	$25.04	*(11.1%)*
MedMen Enterprises Inc.	CSE:MMEN	$4.02	$3.42	*(14.9%)*
Green Thumb Industries Inc.	CSE:GTII	$20.67	$17.55	*(15.1%)*
iAnthus Capital Holdings, Inc.	CSE:IAN	$7.48	$6.35	*(15.1%)*
US MSOs Mean:				*(5.0%)*

Source: Ubika, Capital IQ

VALUATION & ASSUMPTIONS

We are initiating coverage of Nextleaf Solutions with a BUY rating and target of $1.65/share. We utilize a blended 50/50 NAV and EV/EBITDA methodology for our valuation. We believe a blended 50/50 valuation with NAV and EBITDA is the most reasonable way to value companies from this emerging industry because it takes two separate philosophical views and averages to a final number. Our view is that using these methodologies together allow for a more accurate target, supported by two different viewpoints.

Figure 9: Valuation Table

Net Asset Valuation	Discount	$ Million	$/Share
Nextleaf Solutions Processing Facility	10.0%	$375	$2.47
Project NAV		**$375**	**$2.47**
Corporate Adj. & Additional Costs	10.0%	($89)	($0.59)
Cash & Equivalents		$9	$0.06
ITM Warrants & Options		$10	$0.07
Equity Raised		$8	$0.05
Adjusted NAV		**$313**	**$2.06**
2021 EBITDA		**$54.0**	
Multiple		4.0x	
Enterprise Value		**$216**	
Discount rate (%)		**10%**	
1-Year Estimate		**$183**	**$1.20**

*Based on 5 year outlook, discounted FCF one-year out

NAV Derivation	$/Share
Project NAV	**$2.47**
Multiple	1.00x
	$2.47
Adjustments	-$0.41
NAV ($/shr)	**$2.06**

Blended Target (50/50)	$1.65

Source: Ubika

For EBITDA, our valuation is derived using a 4.0x multiple applied to our 2021E EBITDA estimate of $54.0M, discounted by 10%, equating to a one-year market value of $183.0M. Based on the buoyancy of today's cannabis markets, we believe 4.0x is conservative, but reasonable multiple for a pre-licensed extraction company with significant upside. In comparison, MediPharm, Neptune, and Valens, which are cash flowing, are trading 2021E EBITDA multiples of 6.7x, 13.2x, and 4.5x, respectively.

There are three important additional factors that further support this multiple:

- The average 2021E EV/EBITDA multiple for intermediate cannabis companies in Canada and the U.S. are 6.4x and 5.5x;
- This multiple could appear conservative in a one to two-year period, as extraction companies continue to be highlighted with growing demand and increased biomass supply, and;
- We believe extraction companies in Canada have the recipe to become extremely profitable, so this might demand an even higher premium

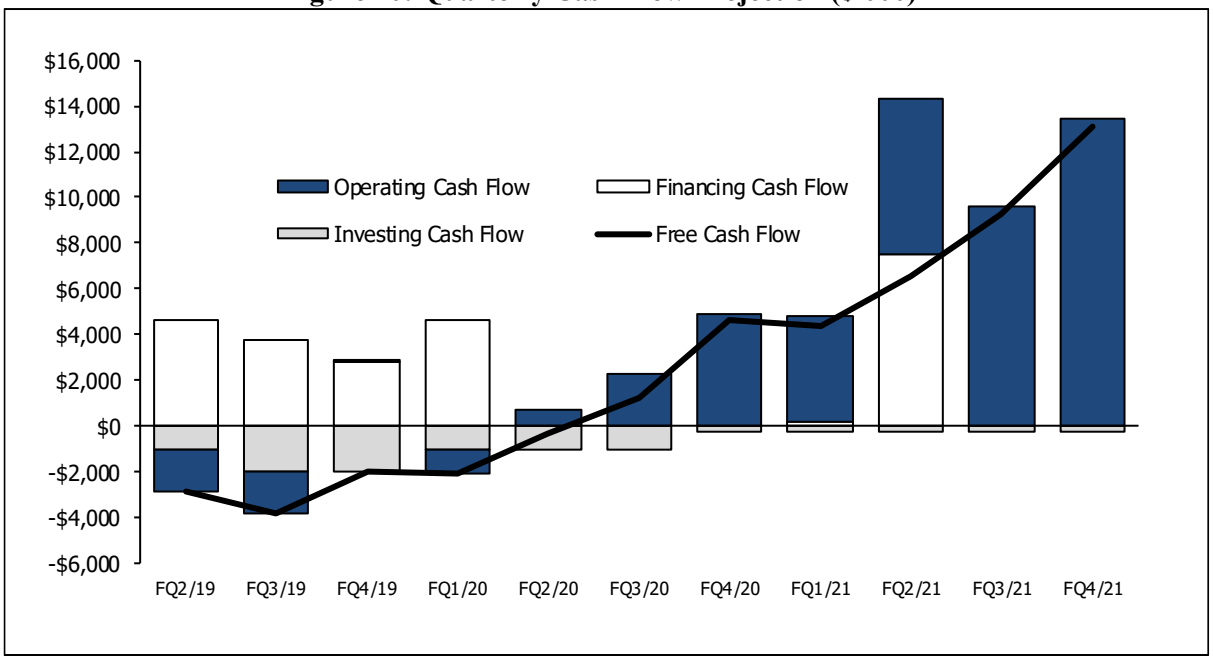
For our denominator, we use a fully-diluted, financed share count, which would include all in-the-money (ITM) warrants and options, as well as the recently-announced $4.0M raise at $0.40/unit, in addition to $8.0M of future equity finances at $0.50/unit. We also assume all raised funds are 100% deployed into the Company to ensure no double counting. See Figure 10, for illustration cash flow and our quarter-end cash balance projections. Note that in our analysis, the cash balance never reaches or goes below zero. For reference, we have exercised the warrants raised with the RTO with a strike price of $0.70.

VALUATION & ASSUMPTIONS CONTINUED

The 14.3M issued warrants are a significant source of financing for Nextleaf. These warrants have a $0.70 strike (expire March 2021) and represent $10.0M in additional funding for the Company. On April 22, 2019, Nextleaf announced a $4.0M financing, with an additional 10.0M in warrants at the same strike price with the same expiry. In total, the warrants could provide the Company an additional $17.0M in proceeds. Of note, if the stock trades above $1.25 for 20 consecutive days, these warrants will automatically accelerate.

We expect Nextleaf to be FCF positive by FQ2/20 (ending March 31, 2020). As illustrated in Figure 10, we believe the Company to be fully supported by its own cash flow and that it will not need additional financing to execute its 100,000 kg of dried cannabis per year goal. We are estimating $3.4M in FCF in 2020E, growing to $33.3M in 2021E.

Figure 10: Quarterly Cash Flow Projection ($'000)



Source: Ubika

Possible Upside to our Valuation

Our estimates assume no benefit from exporting. We note that all our production and sales estimates are entirely based on domestic demand. We have not included any upside for outside Canada. While we believe this could bring strong upside to the stock (exporting to Europe, Mexico, etc.), we will wait until future milestones are achieved before including this in our forecasts. On that note, we have only utilized a max of 70% of the Company's estimated capacity of 100,000 kilos of dry cannabis per year, using one shift. We believe, given enough supply, the Company can easily scale to meet full capacity and could even double that using the same original CAPEX by adding an additional shift.

If demand for extraction becomes significant, the Company has the ability to expand its existing capacity by 2-3x on the same floor space by adding shifts. All else equal, Nextleaf could at least double its capacity to 200,000 kilograms of dry cannabis per year, or 250,000 kg by expanding to two shifts. We estimate it would take <$1M in additional CAPEX to accomplish this, though we acknowledge that labour, storage and other supply chain costs would increase. We have provided a sensitivity analysis of the Company's production utilization to our target price, revenue, and EBITDA estimates in 2023E on Page 11 (Figure 12).

TARGET SENSITIVITY TO PRICING AND COSTS

Every $0.01 move in the long-term mg price of distillate increases/decreases our one-year target by $0.15. In this analysis, we assumed all our other production estimates are constant. Based on these projections, we believe the long-term breakeven price of distillate produced by Nextleaf's facility is between $0.03 and $0.04/mg THC. In our opinion, we do not believe these prices will get this low for a long time in Canada due to Health Canada regulations and higher barriers to entry. Regardless, a breakeven price this low speaks to the strength of an extraction business model.

Figure 11: 2022 Retail Price Sensitivity Analysis

Distillate Cannabis Price ($/M mg)	Target Price	Revenue ($M) 2022	EBITDA ($M) 2022
Base Case	$1.65	$313.6	$193.7
$0.020	$0.45	$62.7	-$34.0
$0.030	$0.65	$94.1	-$5.4
$0.040	$0.80	$125.4	$23.1
$0.050	$0.95	$156.8	$51.3
$0.060	$1.05	$188.2	$79.9
$0.070	$1.20	$219.5	$108.4
$0.080	$1.35	$250.9	$136.6
$0.090	$1.50	$282.2	$165.1
$0.100	**$1.65**	**$313.6**	**$193.7**
$0.110	$1.75	$345.0	$222.0
$0.120	$1.90	$376.3	$250.4
$0.130	$2.05	$407.7	$279.0
$0.140	$2.20	$439.0	$307.2

Source: Ubika

Figure 12: 2023 Utilization Sensitivity Analysis

Utilization (100,000 dry kilos/year)	Target Price	2023 Revenue ($M)	2023 EBITDA ($M)
Base Case	$1.65	$314	$194
20%	$1.05	$99	$32
30%	$1.20	$142	$64
40%	$1.30	$185	$96
50%	$1.40	$228	$129
60%	$1.50	$271	$161
70%	**$1.65**	**$314**	**$194**
80%	$1.75	$356	$226
90%	$1.85	$399	$259
100%	$1.95	$442	$291
110%	$2.10	$485	$323
120%	$2.20	$528	$356
130%	$2.30	$571	$388
140%	$2.40	$613	$421

Source: Ubika

Every 10% move in long-term utilization increases/decreases our one-year target by $0.10/share. As Nextleaf's facility begins to process biomass, the subsequent movements in its utilization rate could represent ~$30M in EBITDA per 10% increase/decrease in production utilization. We highlight that at only 20% utilization, we believe Nextleaf is worth $1.05/share. Importantly, based on our analysis, we estimate that the Company could be worth more than $2.00/share if its facility increases its capacity beyond its initial 100,000 dry kilo production estimate/year. In our view, by 2021E, if its facility receives all licenses in a timely manner, this is highly possible.

BUSINESS MODEL

We are assuming that Nextleaf's facility will be licensed with the Standard Processing License in early Q4/19. We expect first revenues later in that quarter, as it typically takes 1-2 months to start-up, compared to 8-16 months for cultivators. In order to generate revenue from toll processing and white label production, Nextleaf's facility must be issued an Authorization to Distribute License from Health Canada, which is expected by Q4/19. This license will allow for the services and sale of cannabis oil to cultivators/processors/distributors.

Once the remaining infrastructure build-out at the facility is completed (est. to be Q3/19), discussions with cultivators for toll processing and white label production agreements can begin. Nextleaf could start to announce these agreements towards the end of Q2/19 or beginning of Q3/19. We believe these should be strong potential catalysts for the stock.

Nextleaf has signed an LOI for a beverage partnership with BevCanna, a standard processing applicant that aspires to be a white label producer of CBD and THC beverages. BevCanna has built out a 40,000 sq. ft, $30M bottling facility in Osoyoos, BC, with an annual production capacity of 40M bottles. The site has a Hazard Analysis Critical Control Point (HACCP) certification and is approved by Health Canada. It also has a 315 acre aquifer of Canadian alkaline spring water on site. As part of the LOI, Nextleaf's nano-emulsified water-soluble THC/CBD distillate is planned to be used in the beverage formulations. The nano-emulsification provides long-term stability (no settling or separation), no cannabis texture or residue, and fast onset with high bioavailability. Additionally, Nextleaf earns licensing fees from all products made with the Company's intellectual property. Of note, the LOI is pending the securement of a Health Canada processing license.

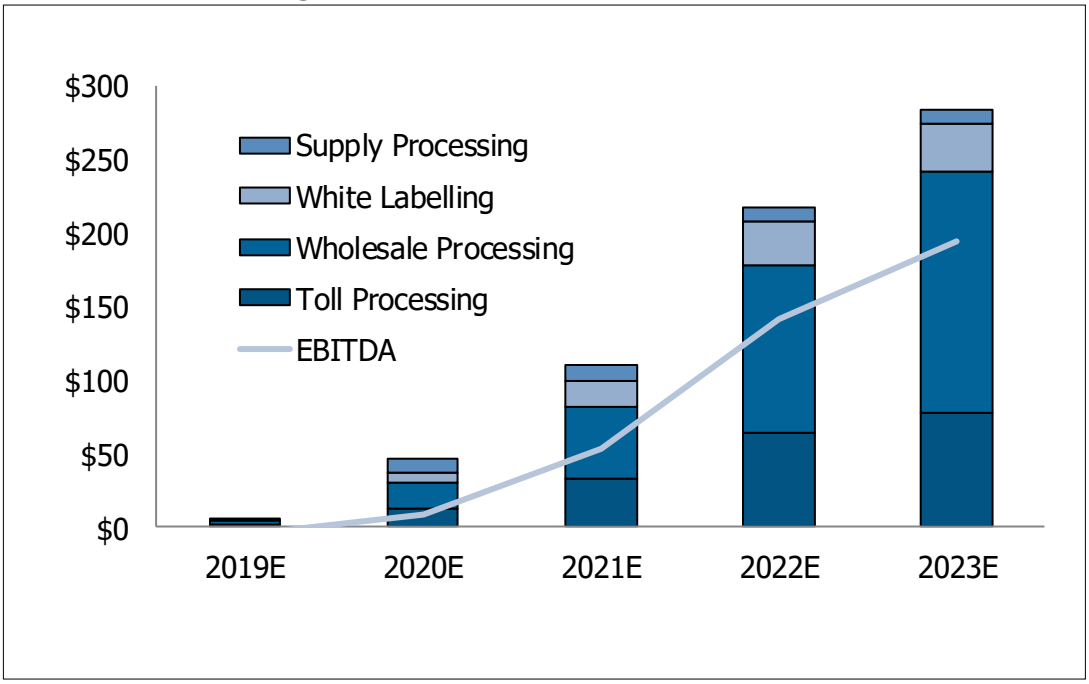
Supply and toll processing is considered a service, and there is a wide variety of payment structures. Payment plans may include paying a cannabinoid content fee (per mg), or a portion of the wholesale price, and/or cost of production. In our model, we assume a conservative 30% of the wholesale price and cost for payment for tolling/ supply processing. We stress to investors that extraction companies may inflate topline revenue and make negative adjustments in the expense line of the income statement (we have modelled it this way). As a result, tolling and supply processing gross margins look higher than what they are in reality. Our estimates assume that white label production and wholesale processing are that highest margin lines of business. As such, it is in Nextleaf's interest to purchase as much biomass as possible to get to full capacity.

Nextleaf plans to generate revenues through four main verticals outlined below:

- **Supply processing:** Biomass is purchased as directed by the client and sold back once produced.
- **Toll processing:** Biomass is provided by the client and sold back to the client once produced. Toll processing is when an extraction company provides extraction as a service for a cultivator. Under this option, most of the risk of selling final product is on the cultivator that contracted the service. Revenue from toll processing can be recognized once the processing is completed.
- **Wholesale processing:** Biomass is purchased by the processor and sold directly to a source (the highest bidder (B2B), OCS, a consortium, etc.) without any intermediaries.
- **White Label Production:** Wholesale quantities of biomass are purchased and processed into cannabis oil. This could be a crude cannabis oil (no secondary processing), or in Nextleaf's case, processed for white label production exclusively with distillate oil (requires secondary processing & purification). After the final product is created (distillate, packaging, marketing materials, etc.), the products are then sold to a company (cultivator, brand, intermediary, etc.) at a mark up. White label is the highest margin product offering so far.

BUSINESS MODEL CONTINUED

Figure 13: Nextleaf's Revenue Breakdown



Source: Ubika

Additional Possible Revenue Streams

There is a significant opportunity here with failed crops. There have been rumours of failed crops plaguing large greenhouse cultivators (Canopy Growth and Aurora Cannabis) that did not meet company or Health Canada regulations. Although licensed cultivators are not likely to admit this, we anticipate that there should be more failed crops in the future, as we believe scaled cultivation above 30,000 sq. ft is difficult, and there are many ways to make mistakes. When a crop fails, this biomass would either have to be: 1) discarded at a loss to the cultivator, or 2) sold off to extraction companies, to be turned into cannabis oil. We fundamentally believe that there will be an oversupply of biomass in the Canadian markets in three to six years, and that many greenhouses will have to shut down due to higher costs. Much like mining and breakeven commodity prices, these greenhouses only work above certain per gram prices.

Licensing Intellectual Property & Equipment Sales

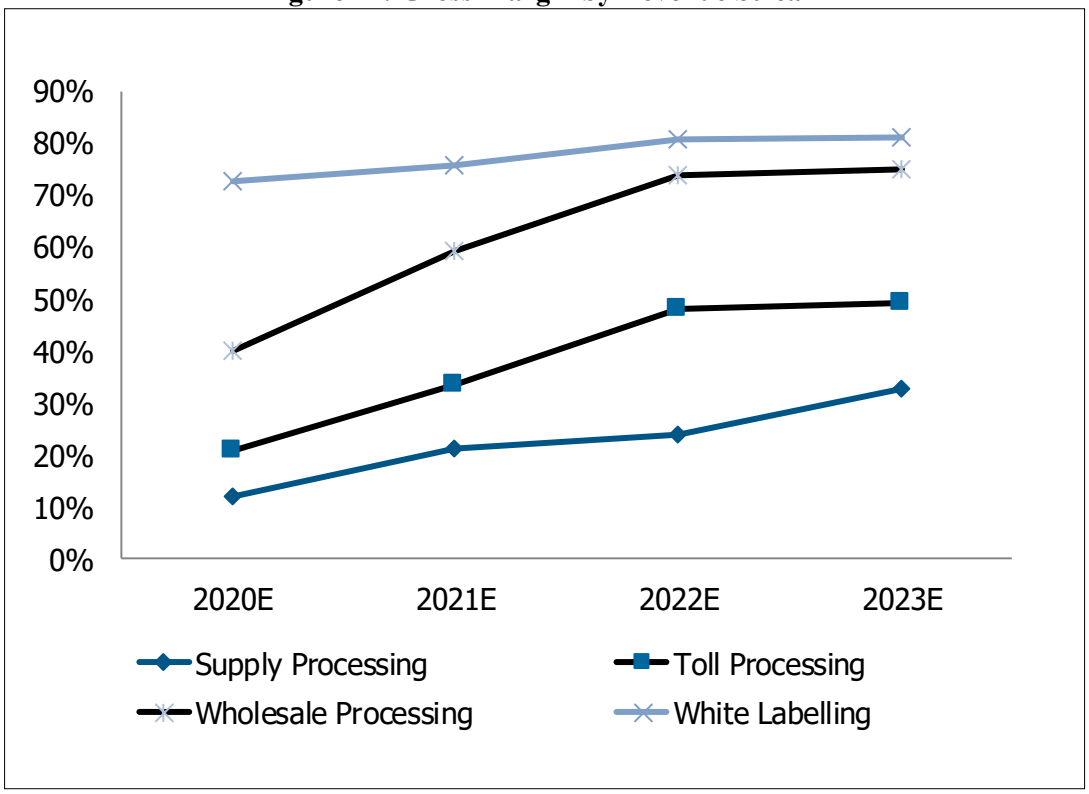
Nextleaf Solutions is developing a large intellectual property portfolio covering all aspects of the extraction process of cannabis and hemp biomass. This portfolio includes biomass preparation, extraction, filtration, solvent recovery, decarboxylation, and distillation, as well as, formulations for a number of cannabis infused products. We believe there is no other extraction company with a similar intellectual property portfolio to cover all aspects of the ethanol extraction process. As a result, there is an opportunity for Nextleaf to license this intellectual property to licensed producers or other extraction companies for a royalty or fee. In our view, forging partnerships to license out their patented technology or custom equipment, rather than aggressive litigation, is the best strategy. We would consider this additional upside to our valuation, as we do not model any revenue from this potential business stream.

BUSINESS MODEL CONTINUED

We have modeled gross margins of between 75%-80% for white label processing and 60%-75% margins for wholesale processing for the following reasons: First, Pharmaceutical contract manufacturers (CMOs), who are white label pharmaceutical producers typically have average gross margins of ~71% (USC Shaffer Center for Health Policy and Economics). Second, as discussed previously, we believe that the price for biomass is likely to drop, as ~21.8M sq. ft of supply comes online in Canada in the next 1-2 years. This implies 872,000 kg in annual production based on conservation yields of 40 grams/sq. ft, according to the Parliamentary Budget Office, Canadian demand is estimated at 655,000 kg annually by 2021. Third, Nextleaf's patented process enables the creation of a premium distillate with upwards of 95% purity, which we believe should result in premium margin products. Lastly, white label production requires lower OPEX, as the Company does not incur marketing and sales & administrative expenses that occur when selling and branding products.

We are modeling lower margins for toll processing, in the 30%-45% range. Toll processing is a service and we expected there to be a competitive bidding process among extraction companies for toll processing contracts from cultivators in the future. Additionally, we have modeled lower margins of 20%-30% for supply processing, for the additional costs of having to source the biomass, as well as the transportation and handling requirements.

Figure 14: Gross Margin by Revenue Stream



Source: Ubika

We are modeling cost of goods sold based on four revenue models: white label production, wholesale processing, toll processing, and supply processing with ~75%, ~65%, ~45%, and ~25% gross margins, respectively. Additionally, ~80% of COGS is expected to come from the cost of biomass, which we believe should have favourable economics in the future, as previously discussed there is ~21.8M sq. ft of production capacity coming online within the next 1-2 years. This is also evidenced by the fact that Health Canada has reported that as of February 2019, there are 120,731 kg of dried cannabis that was inventoried across Canada. Allan Rewak, who is the executive of the Cannabis Council of Canada, told Global News on April 20, 2019, that "much of the unfinished inventory is product unsuitable for sale to consumers." We believe that this excess biomass will either have to be discarded at a loss to cultivators or sold off for extraction.

PRICING ASSUMPTIONS

Pricing assumptions in our model:

1. The price of crude cannabis oil (we assume an average of 60% cannabinoid content)
2. The price of distillate oil (we assume an average of 85% cannabinoid content)
3. The price of trim (we assume an average strength of 10% cannabinoid content)

We highlight our pricing estimates in Figure 15 below:

Figure 15: Pricing Assumptions

Pricing Assumptions		2019E	2020E	2021E	Long Term
Medical-Grade Crude	(C$/mg)	$0.104	$0.100	$0.088	$0.080
Medical-Grade Distillate	(C$/mg)	$0.130	$0.125	$0.110	$0.100
CDN Medical-Grade Trim	(C$/lb)	$750	$700	$600	$450
Trim (Avg. 10%)	(C$/kg)	$1,650	$1,540	$1,320	$990

Source: Ubika

Long-term pricing pressure on the price of cannabis products in Canada is likely inevitable. In general, Canada-based cannabis companies receive a premium based on legalization (more global opportunities) and higher barriers to entry (licenses are dependent on Health Canada). However, as more supply continues to ramp-up, prices should start to fall. To illustrate, BDS Analytics reports that the price of indoor, greenhouse, and outdoor cannabis in Colorado has decreased to $3.11, $2.08, and $1.49/gram in July 2018 compared to ~$4.90, ~$3.40, and ~$3.10/gram in July 2015, respectively. We highlight that the largest decrease in price was attributed to outdoor cannabis, which is by far the easiest and most scalable way to grow. We believe there will be a similar positive correlation to prices in Canada, but due primarily to tighter regulations, prices should be notably stronger than the more diluted (more licenses, less regulations, etc) U.S. markets, such as Colorado and California. We also note our long-term price of trim is estimated at $990/kg, or $450/lb. While we think this price should be reasonable, in more mature markets such as California, the price of trim has gone as low as US$100/lb.

OVERVIEW OF OPERATIONS

Figure 16: Overview of Extraction Methods

Extraction Method	Throughput	CAPEX	OPEX	Terpene Profile	Products
Ethanol	High	Low	Low	Medium	Distillate, oil, and concentrates
Supercritical CO2	Low	High	Medium	High	Distillate, oil, concentrates, wax
Hydrocarbon	Medium	High	Medium	High	Oil, concentrates, wax, shatter
Solvent-less	Low	Low	Low	High	Kief/Hash, Rosin

Source: Ubika

Extraction Process

Advantages and Disadvantages of Different Extraction Methods

Ethanol:

Advantages:

- Cheapest and highest throughput
- More efficient - scales far better
- Can use lower cannabinoid content biomass, in addition to industrial hemp, for CBD extraction;
- Less CAPEX
- Lower OPEX as true scalability is achieved. Increases in labour and energy are not linear to increases in throughput as capacity increases
- Solvent is food grade and can be recycled numerous times

Disadvantage

- Ethanol is considered expensive
- Chlorophyll from the plant is extracted, however, this can be removed by using chilled ethanol or in the refinement process

Supercritical CO_2:

Advantage:

- Low toxicity
- The primary extract is of higher cannabinoid potency than from extract produced from ethanol, implying a slight advantage to getting to the isolates (higher concentrated feed stock), however the CO_2 needs to be winterized to remove waxes and fats, which is done by using chilled ethanol
- Good control over product output
- CO_2 can be recycled

Disadvantage

- Higher CAPEX requirements, as process requires additional machines to ramp up output
- Lower throughput (~2-5 kg per hour)
- Medium OPEX due to high technical complexity (high temperature and pressure requirements to keep CO_2 in supercritical state)
- CO_2 is dangerous at high level PPMs. Additionally, CO_2 is done at extreme pressures (5,000 psi), which has significant safety concerns

OVERVIEW OF OPERATIONS CONTINUED

Extraction Process Continued

Advantages and Disadvantages of different extraction methods

Hydrocarbon (butane and propane):

Advantages

- Easy recovery of cannabinoids
- Can obtain a high terpene profile, without co-extracting the plants chlorophyll, which gives an unpleasant taste, as a result less refinement and purification is required during the extraction process
- Low boiling point of butane and propane allow it to be easily removed from the cannabinoids

Disadvantages

- Butane and propane are highly combustible gases, which require specialized technical staff (higher OPEX)
- More requirements and regulations required for the extraction process
- Requires a Class 1 Division 1 (CIDI) explosion proof room (higher CAPEX), which is the highest requirements needed for working with combustible gases which have strict government regulations and are the most expensive to build (to our knowledge only **Valens GroWorks (CSE:VGW, $4.06 | N/R)** and **Canopy Growth Corporation (TSX:WEED, $64.03 | N/R)** have one of these rooms)

Solventless extraction (Bubble Hash, Pressure Rosin, and Steam Vac):

Advantages

- Solvent-free and considered by some to be healthier
- Very safe process
- Broad-spectrum extract (Cannabinoid and terpene profile)
- Inexpensive

Disadvantages

- Lack of scalability (commonly used by craft growers)
- Labour intensive
- THC/CBD content is typically lower ~50-60%
- Low extraction efficiency

OVERVIEW OF OPERATIONS CONTINUED

Distillation and Refinement is the Final Step in the Process

Under the distillation process, individual cannabinoids and terpenes are separated and recaptured. This process is highly technical; however, it is a critical process in the manufacturing of some of the most specialized and high-margin products, such as vapes, edibles, and beverages.

The main difference between primary extraction and post processing refinement and purification (distillation) is purity. Primary extraction results in high concentrations of cannabinoids and terpenes, however there is no isolation of specific cannabinoids. Through isolation (post processing), concentration and purity can be increased further. Purity is especially important for products that are inhaled. Issues with products such as vape pens, arise when distillate is not properly refined, or the wrong cutting agent is used. Cutting agents, such as propylene glycol or glycerin, can undergo decomposition when in contact with the heating element of a vape. On this point, studies have shown that volatile carbonyls, a carcinogenic, can be formed, which could have an adverse effect on health.

Nextleaf's refinement and purification process ensures that none of these compounds remain present in the distillate oil. Recently, on April 14, 2019, the Michigan Bureau of Marijuana issued a warning to vape users about inhaling metal and heavy metals, such as lead from heating elements in vaporizers. Health Canada has proposed strict regulations on edible cannabis, extracts and topicals. These regulations cover packaging, additives, labeling, standardized THC/CBD content, in addition to amounts of left over solvents from processing in ppm that are allowed in the final product. In our view, Nextleaf's patented refinement and purification process, along with management expertise in quality assurance, should give the Company a distinct competitive advantage.

Molecular separation is a process that converts the crude cannabis oil into separate compounds (cannabinoids). This process is done by applying thermal energy to the refined crude cannabis oil to convert the cannabinoids into vapors, which are then collected and condensed into a viscous oil. Each cannabinoid has a different temperature at which it becomes a vapor. Cannabinoids are isolated by heating the crude cannabis oil to their specific boiling point under vacuum. Through this purification process, companies can separate the different cannabinoids into high-purity formulation, which can then be used in edibles, beverages, or as an active pharmaceutical ingredient (API).

COMPARABLE COMPANIES

MediPharm Labs Corp. (TSXV:LABS)
MediPharm Labs operates laboratory clean rooms (built to ISO 9000 and GMP standards but not certified or accredited, respectively) in Barrie, Ontario. Due to its differentiated focused extracts-only business strategy, MediPharm acts as a strategic partner to any LP, providing both white-label production and contract processing. LABS is expanding globally and is currently developing an extraction facility in Australia, expected to be completed in Q2/2019. For further discussion of the last reported quarter, refer to page 7 of this report.

Radient Technologies Inc. (TSXV:RTI)
Radient Technologies is a Canada based company that provides industrial scale manufacturing solutions for soluble products from various materials using their patented Microwave Assisted Processing (MAP) technology. Radient reports that its extraction platform extracts natural active compounds at a commercial scale. On February 4, 2019, the Company announced that it had received its standard processing licenses from Health Canada to begin selling extracted cannabis.

Valens GroWorks Corp. (CSE:VGW)
Valens GroWorks is focused on specialized extraction methodology, distillation and cannabinoid isolation and purification. The Company has an extraction capacity of 240,000 kg per year and has a pending EU GMP certification. Valens has signed 9 extraction agreements with licensed cultivators, 5 (**The Green Organic Dutchman (TSX:TGOD, $4.26 | N/R)**, **Organigram (TSX:OGI, $9.44 | N/R)**, **Tilray (NASDAQ:TRLY, US$47.22 | N/R)**, and **Canopy Growth (TSX:WEED, $64.03 | N/R)**, **HEXO Corp. (TSX:HEXO, $10.05 | N/R))** with Top-10 cultivators. The agreement with The Green Organic Dutchman, signed on March 11, 2019, is to process a minimum of 30,000 kg of biomass in the first year, and 50,000 kg in the second year. The Company has utilized all four extraction methods (CO2, ethanol, hydrocarbon and solventless). Valens also has a strategic partnership with ThermoFisher Scientific, one of the world's leading manufacturers of lab equipment, in addition, to an ISO 17025 labs accreditation which allows the Company to conduct standardized testing for over 400 different metals, pesticides, terpenes, residual solvents, microbials, and cannabinoid profiles. On April 9, 2019, Valens announced the closing of a $43.1M bought deal at $2.95/share. Proceeds from the deal are expected to be used to increase extraction capacity and to build out the adjacent property beside their Kelowna, BC facility. This follows a previous bought deal announced on October 10, 2018, where Valens raised $27.3M.

COMPARABLE COMPANIES CONTINUED

Figure 17: Nextleaf's Comps Table

Company Name	Last Price ($CAD)	Mrkt Cap ($CAD)	EV ($CAD)	Cash ($CAD)	Debt ($CAD)	EV/Revenues 2019E	EV/Revenues 2020E	EV/Revenues 2021E	EV/EBITDA 2019E	EV/EBITDA 2020E	EV/EBITDA 2021E
Neatleaf	**$0.67**	**$71.7**	**$62.7**	**$9.0**	**$0**	**10.3x**	**1.2x**	**0.5x**	**n/m**	**6.8x**	**1.2x**
Pure Play Cannabis Extraction Companies											
MediPharm Labs Corp.	$5.45	$617.1	$603.3	$7.9	$6.0	5.2x	3.0x	1.9x	23.4x	10.3x	6.7x
Neptune Wellness Solutions Inc.	$5.82	$465.4	$446.7	$15.6	$3.1	17.4x	7.1x	3.4x	100.4x	36.6x	13.2x
Valens GroWorks Corp.	$4.06	$459.0	$458.5	$0.5	$0.0	10.1x	3.2x	2.3x	25.1x	6.3x	4.5x
Radient Technologies Inc.	$0.92	$244.5	$200.2	$37.6	$6.7	n/a	n/a	n/a	n/m	n/m	n/m
Mean Pure Play Cannabis Extraction						**10.9x**	**4.4x**	**2.5x**	**49.7x**	**17.7x**	**8.1x**
Canadian Majors											
Canopy Growth Corporation	$64.03	$22,095.4	$17,188.1	$4,115.9	$791.5	74.1x	22.2x	12.7x	n/m	n/m	56.6x
Aurora Cannabis Inc.	$11.58	$11,760.2	$11,365.9	$46.8	$347.6	39.4x	14.0x	7.6x	n/m	56.3x	23.9x
Cronos Group Inc.	$20.66	$6,880.2	$6,826.6	$32.6	$21.0	101.2x	29.6x	17.1x	n/m	79.6x	45.3x
Tilray, Inc.	$63.61	$6,157.1	$4,906.7	$664.9	$585.6	18.7x	8.5x	6.0x	n/m	121.9x	21.1x
Aphria Inc.	$8.99	$2,253.9	$2,069.0	$107.5	$77.4	10.0x	2.9x	2.0x	n/m	32.7x	8.8x
HEXO Corp.	$10.05	$2,116.6	$1,951.5	$165.0	$0.0	31.3x	5.4x	3.3x	n/m	21.2x	12.7x
OrganiGram Holdings Inc.	$9.44	$1,444.5	$1,369.8	$12.5	$62.3	11.5x	6.1x	4.4x	28.3x	15.7x	12.1x
The Green Organic Dutchman Holdings Ltd.	$4.26	$1,168.8	$954.2	$213.5	$1.1	17.8x	2.8x	1.8x	n/m	9.8x	6.0x
CannTrust Holdings Inc.	$7.88	$1,076.1	$1,053.1	$9.0	$14.0	8.0x	4.2x	3.2x	n/m	15.9x	9.6x
Village Farms International, Inc.	$15.15	$744.0	$675.9	$16.3	$51.9	2.7x	2.6x	1.6x	18.8x	9.0x	4.5x
Mean Canadian Majors						**31.5x**	**9.8x**	**6.0x**	**23.6x**	**40.2x**	**20.1x**
US Based Operations											
Curaleaf Holdings, Inc.	$14.45	$6,610.3	$6,131.5	$363.8	$115.0	13.3x	6.9x	7.6x	38.5x	14.6x	n/m
Green Thumb Industries Inc.	$17.55	$3,311.4	$3,104.4	$199.2	$7.8	11.0x	5.0x	3.0x	55.6x	18.3x	10.9x
Charlotte's Web Holdings, Inc.	$25.04	$2,335.1	$2,234.3	$100.2	$0.6	10.1x	4.7x	3.5x	32.3x	13.4x	10.2x
Acreage Holdings, Inc.	$26.94	$2,328.4	$2,163.8	$143.2	$21.3	7.0x	3.1x	n/a	32.6x	11.1x	8.8x
Trulieve Cannabis Corp.	$17.40	$1,916.3	$1,854.3	$33.3	$28.7	6.1x	4.5x	3.5x	14.1x	10.1x	8.1x
Cresco Labs Inc.	$16.00	$1,823.5	$1,644.3	$179.2	$0.0	3.6x	1.6x	1.2x	17.2x	5.4x	4.0x
MedMen Enterprises Inc.	$3.42	$1,671.2	$1,423.8	$106.6	$140.7	6.2x	2.2x	1.2x	n/m	9.7x	4.3x
iAnthus Capital Holdings, Inc.	$6.35	$1,081.2	$1,017.7	$20.9	$42.6	4.0x	2.4x	1.3x	11.0x	10.7x	n/m
Origin House	$11.99	$803.0	$717.8	$69.2	$16.0	4.8x	2.5x	1.9x	51.3x	12.8x	9.6x
Mean US Based Operations						**7.3x**	**3.6x**	**2.9x**	**31.6x**	**11.8x**	**8.0x**

Source: Ubika, Capital IQ

Undervalued compared with peers. Based on our preliminary revenue estimates of $54.2M for 2020E, Nextleaf trades at 0.8x sales, compared with other pure-play cannabis extractors, Canadian majors, and U.S.- based operations, which trade at a consensus average of 4.4x, 9.8x, and 3.6x, respectively. We note that in our initial analysis, we only assumed one shift per day (Nextleaf's facility can do more than two) and modelled ~70% utilization of Nextleaf's facility Phase 1 (100,000 kg/year) in 2023E. As a result, we believe there is plenty of room to exceed our estimates.

COMPARABLE COMPANIES CONTINUED

Figure 18: Extraction Companies Production Statistics

				Extraction Type				
Ticker	Company Name	Consolidated sq. ft.	Annual Funded Biomass Capacity (kg)	Ethanol	Butane	Propane	CO2	Other Chemical Solvent
CSE:OILS	Nextleaf Solutions	6,540	250,000	Yes	No	No	No	No
TSXV:LABS	Medipharm Labs Corp	70,000	250,000	No	No	No	Yes	No
TSX:NEPT	Neptune Wellness Solutions Inc.	NA	250,000	Yes	No	No	Yes	No
CSE:VGW	Valens Groworks Corp	400,000	240,000	Yes	No	No	Yes	No
TSXV:RTI	Radient Technologies Inc	23,000	56,000	No	No	No	No	Yes

***Consolidated sq. ft & annual biomass capacities are by company estimates only. Some of these companies do not provide how much of the space is currently operating/funded**

Source: Ubika

INVESTMENT RISKS

The key risks to reaching our target share price include the following:

Regulatory Risk: A delay in Nextleaf securing its standard processing license and sales license beyond Q4/19 could negatively impact our estimates. Additionally, delays around the production of cannabis edible products by Health Canada could take a longer time to meet our revenue estimates. Later company milestones are highly dependant on Nextleaf securing all regulatory approvals and the Canadian government allowing the legalization of cannabis derivative products.

Market Risk: A decline in the overall performance of cannabis companies or financial markets in general would adversely affect our share price predictions.

Risk of Alternative Extraction/Production Methods: There can be no assurance that existing distillation technology will continue to remain competitive, or that new cannabinoid recovery techniques such as biosynthesis through yeast cultures or chemical synthesis could be developed. If such new cannabinoid recovery techniques were to be developed, this could render Nextleaf's technology less desirable. Such changes in the market could have a negative impact on the Company's operating and financial condition.

However, we are of the opinion that for low cannabinoid content THC/CBD, outdoor cheap farming should prove more economical over growing cannabinoids through yeast cultures or chemical synthesis. Biosynthesis has the potential to be economical when it comes to specific cannabinoids like CBN or CBG, however, the commercialization of this technology is most likely at least 2-3 years away. Companies such as Montreal-based Hyasynth Biologicals, which received an $10.0M investment from **Organigram (TSX:OGI $9.44 | N/R)** and Boston-based Ginkgo Bioworks Inc, which is in a partnership with **Cronos Group (TSX:CRON $20.66),** are working towards biosynthesis.

Pricing/Margin Risk: As more extraction comes online via other extraction companies or cultivators extracting their own product in house, Nextleaf could become less competitive. The price the Company charges for toll processing and white label production may be adversely affected leading to a decrease in our financial estimates. Supply in Canadian markets is entirely dependent on how many licenses are issued by Health Canada over time and how long marijuana stays federally illegal in the U.S. Additional pricing pressures could come from the migration out of the unregulated market into the regulated market.

Supply/Demand: Currently, LPs are signing non-exclusive contracts for third-party processing, however there is a risk that in the future these contracts become more exclusive in nature, precluding Nextleaf from capitalizing on its relationships.

International/Global Expansion: Nextleaf will likely have the potential to expand its customer profile and/or facility locations to other countries in the future. This will expose the Company to global execution, currency, and regulatory risks.

MANAGEMENT TEAM AND BOARD OF DIRECTORS

Executive Officers & Board of Directors

Below is a summary of the key personnel involved with the Company:

Paul Pedersen – Co-Founder, Chief Executive Officer, Director

Paul began his career in the cannabis industry in 2013 and has over 12 years of experience in financing emerging growth companies. Paul is regularly quoted in trade publications such as MJBiz and Lift. He has consulted a variety of key industry players in the sector, including Canada's first licensed producer, Canada's largest extraction/processor, and Canada's leading seed-to-sale software provider. Paul has founded several start-ups, including a media company acquired in 2007 by Towerstream Corporation (NASDAQ: TWER). Paul holds an MBA in finance from Michigan State and a BA in Commerce from Saint Mary's University. Paul's firm Greywood partners advised PharmaCan, the first LP that was licensed to produce cannabis oil under the MMPR in 2015. The firm also worked on German medical cannabis distribution in 2015. Peace Naturals was bought by PharaCan, now Cronos Group, in 2016.

Ryan Ko – Founder, Chief Technology Officer

Ryan has over 15 years of experience in the cannabis industry, developing expertise and intellectual property within extraction technology that has led to Canada's first processing patent for cannabis extraction and distillations. Ryan pioneered Nextleaf's patented end-to-end extraction process. The consumables and concentrates that have been produced with Ryan's process have been acknowledged by the Canadian cannabis awards.

Charles Ackerman, CA, CPA – Chief Financial Officer, Director

Charles has extensive experience in corporate finance and financial reporting for high growth companies. He has lead mergers and acquisitions, divestitures, and private and public capital raises. Charles has served in various finance and corporate leadership roles, developing and executing growth strategies with both public and private companies and family offices in Canada. Charles also worked for Greywood Partners with Paul, which advised PharmaCan.

Dr. Paul MacLeman – Non-Executive Director

Dr. Paul MacLeman has over 25 years of executive and board experiences across agricultural sectors, including encompassing technology, commercial, and finance, and life sciences. He chairs the Nextleaf committee reviewing Strategic Operations.

Important Disclosure

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