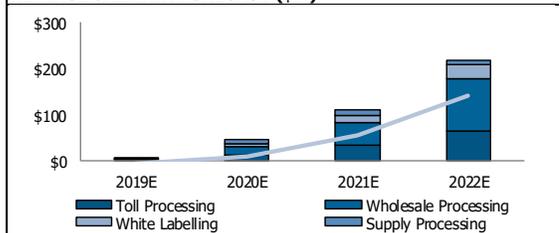


Equity Research: Healthcare - Cannabis

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| NEXTLEAF SOLUTIONS LTD. | | CSE:OILS | | | |
|--|--|---------------|--------|-----------------|-------|
| <i>(Currency is CAD\$, unless noted otherwise)</i> | | | | | |
| Last Price | | | | \$0.65 | |
| Target Price | | | | \$1.65 | |
| Potential Return | | | | 154% | |
| Net Asset Value Per Share | | | | \$2.09 | |
| 52 Week Low / High | | | | \$0.30 / \$0.83 | |
| Average Daily Volume (30-Day) | | | | 2,286K | |
| CAPITALIZATION | | Basic Diluted | | | |
| Shares Outstanding (M) | | 107.0 | | 146.4 | |
| Market Capitalization (\$M) | | | | \$69.6 | |
| Enterprise Value (\$M) | | | | \$60.6 | |
| 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 | \$55.4 | |
| Debt At Year End (\$M) | | \$0.0 | \$0.0 | \$0.0 | |
| RELATIVE VALUATION | | EV/EBITDA | | EV/SALES | |
| | | 2020E | 2021E | 2020E | 2021E |
| Nextleaf Solutions | | 6.6x | 1.1x | 1.1x | 0.5x |
| Extraction Companies | | 17.0x | 8.0x | 4.4x | 2.6x |
| CAN-Based Major Cultivators | | 42.1x | 20.1x | 9.1x | 5.5x |
| US-Based Operations | | 11.5x | 7.7x | 3.6x | 2.1x |

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

HEALTH CANADA CHANGES CANNABIS LICENSING PROCESS TO IMPROVE WAIT TIMES AND PREDICTABILITY

Change in Health Canada cannabis licensing requirements benefit more serious players that are awaiting their turn. On May 8, 2019, Health Canada issued a statement announcing changes that the department is making towards cannabis licensing. Effective immediately, Health Canada will require new applicants for cannabis licenses (cultivate, process, or sell) for medical purposes to have a fully-built site that adheres to all Cannabis Regulations requirements in place at the time of their application. These regulations includes following the physical security requirements and the Good Production Practices requirements. For existing applications, the process is as follows: 1) a high-level review will be completed of applications in the queue, 2) if the review is passed, a status update letter will be submitted indicating that there are no concerns with the application, 3) the applicant submits a site evidence video, and 4) once the site meets regulatory requirements, the application will be reviewed for approval and prioritized based on the original application date. The changes are aimed at improving administration efficiency at Health Canada and to streamline cannabis licensing to resemble other licensed industries, such as pharmaceuticals or medical devices.

Focusing specifically on Health Canada's GGP Regulations, the licensee is required to employ a quality assurance person with appropriate training, experience and technical knowledge to approve the quality of fresh and dried marijuana (including plants and seeds) and cannabis oil, prior to sale. Other requirements include: quality control, record keeping, standard operating procedures (SOPs), standardized packaging, sourcing raw materials from approved sources, maintaining a clean premise, requiring personnel wear protective equipment, use proper sanitation, and conducting finished product testing. Health Canada estimates that 70% of applicants currently in queue fail to adhere to GGP requirements.

We are confident that Nextleaf's 6,540 sq. ft facility located in the Greater Vancouver Area, British Columbia, Canada will be prepared to meet Health Canada's regulatory requirements. We believe this because: 1) Company's facility is designed to adhere to EU Good Manufacturing Practices (EU-GMP) requirements, which meet and exceed Health Canada's specifications for cannabis oil, and; 2) the facility build-out is prioritizing, among many other things, the requirements around physical security. As a result, we believe this Health Canada update is positive for Nextleaf, and we are confident that the Company's facility could be licensed by at least our timeframe of Q4/19.

VALUATION

We are maintaining our BUY rating and our target price of \$1.65/share. We believe Health Canada's news increases the likelihood of Nextleaf's facility receiving its license by Q4/19. We have made no changes to our estimates or timelines, but in a best-case scenario, this could lead to the Company reaching first sales faster than we initially thought.

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I, Patrick Smith, hereby certify that all the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I am the research analyst primarily responsible for preparing this report.

Ratings

Buy: Recommendation: stock is expected to appreciate from its current price beyond 20% in the next 12 months.

Neutral: Recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

Sell: Recommendation: stock is expected to decline from its current price level below 20% in the next 12 months.

U/R: Under Review.

N/R: Not Rated.

Research Disclosures

Applicability

- | | |
|---|--------|
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