

NEXXTLEAF™



Nextleaf Solutions Ltd.
Management's Discussion & Analysis
September 30, 2021

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

The following discussion and analysis of the financial condition and results of operations of Nextleaf Solutions Ltd. ("Nextleaf" or the "Company") for the year ended September 30, 2021 should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2021 (the "financial statements"). The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All monetary amounts in this MD&A are expressed in Canadian dollars, or as otherwise indicated.

The information contained herein is presented as at **January 31, 2022** (the "MD&A Date").

Additional information relating to the Company, including the Annual Information Form ("AIF") dated November 15, 2021, is filed with Canadian securities regulatory authorities (www.sedar.com) and on the Company's website at www.nextleafsolutions.com.

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.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A, constitute "forward-looking information" and "forward-looking statements". All statements other than statements of historical fact contained in this MD&A, without limitation, those regarding the future financial position and results of operations, strategy, plans, objectives, goals, targets and future developments of the Company in the markets where the Company participates or is seeking to participate, and any statements preceded by, followed by or that include the words "believe", "expect", "aim", "intend", "plan", "continue", "will", "may", "would", "anticipate", "estimate", "forecast", "predict", "project", "seek", "should" or similar expressions or the negative thereof, are forward-looking statements.

Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Nextleaf set out throughout this MD&A, including statements regarding: the impact of COVID-19 on the Company's business; the Company's expectations regarding the market for cannabis concentrates; the Company's expectations regarding legislation, regulations and licensing related to the import, export, processing and sale of cannabis products by the Company; the ability to enter and participate in international market opportunities; the ability to secure dried cannabis inventory through long-term supply contracts or otherwise; product diversification and future corporate development; anticipated results of research and development; production capacity expectations including discussions of plans or potential for expansion of capacity at existing or new facilities; expectations with respect to future expenditures and capital activities; and statements about expected use of proceeds from fundraising activities.

These statements are not historical facts but instead represent only the Company's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions, risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. Management provides forward-looking statements because it believes they provide useful information to readers when considering their investment objectives and cautions readers that the information may not be appropriate for other purposes. Consequently, all of the forward-looking statements made in this MD&A are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. These forward-looking statements are made as of the date of this MD&A and the Company assumes no obligation to update or revise them to reflect subsequent information, events or circumstances or otherwise, except as required by law.

The forward-looking statements in this MD&A are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future, including assumptions regarding business and operating strategies, and the Company's ability to operate on a profitable basis.

RISKS AND UNCERTAINTIES

Risk is inherent in all business activities and cannot be entirely eliminated. An investment in the Company's common shares involves risk. Investors should carefully consider the risks and uncertainties described below and, in the AIF, filed with Canadian securities regulators (www.sedar.com) which may not be a comprehensive list of risks and uncertainties as additional risks and uncertainties, including those unknown by the Company at this time, or are currently considered immaterial, may exist, and other risks may apply.

COMPANY OVERVIEW

The Company was incorporated under the Business Corporations Act (British Columbia) (the “BCBCA”) on December 8, 2016 under the name “1099582 B.C. Ltd.”. The Company changed its name to “Legion Metals Corp.” on March 28, 2017 and to “Nextleaf Solutions Ltd.” on March 14, 2019. 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 are listed for trading on the Canadian Securities Exchange (the “Exchange”) under the trading symbol “OILS”, on the OTCQB Market in the United States under the symbol “OILFF”.

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. (“Nextleaf Labs”), a licenced processor, the Company is a low-cost producer of cannabis distillate and private label THC and 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 17 U.S. patents and over 96 patents globally. Nextleaf develops proprietary delivery technology through its Health Canada Cannabis Research Licence, including conducting sensory evaluation of cannabis via human testing. The Company’s proprietary 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, supplying cannabis oils to qualified Canadian and international business-to-business partners under their own brand, and selling products through provincial distribution boards for the adult-use market under the brand “Glacial Gold”.

Nextleaf is a global leader in cannabis innovation, as a processor that owns a global portfolio of patents for the extraction, purification, and delivery of cannabinoids. The Company utilizes its intellectual property (“IP”) to produce low-cost bulk cannabis distillate and private label THC and CBD oils and provide toll processing services.

Nextleaf’s automated closed-loop extraction plant in Metro Vancouver has an annual design capacity to process 75,600kg of dried cannabis and hemp into oil per day. Nextleaf, through its subsidiary Nextleaf Labs, holds Health Canada licences for standard processing and research, allowing for a number of licenced activities including sensory evaluation of cannabis via human testing. The Company also commercializes its portfolio of issued and pending patents through licensing of IP.

Nextleaf has engaged CannDelta with respect to its application for a Dealer’s Licence and has received acceptance of its application, now formally under review by Health Canada. Assuming approval from Health Canada, the Dealer’s Licence is expected to allow Nextleaf Labs to conduct a variety of activities relating to psilocybin and psilocin including R&D, IP development, production of base substance materials, laboratory analysis, as well as the sale and distribution of the substances to authorized individuals, including researchers and for its use in clinical trials.

The Company also utilizes its 6,500 square foot facility, housing its automated extraction system to produce cannabinoid based branded consumer products, which it supplies to white-label clients to be sold under their own brands, or directly to provinces and distributors under the Company’s brand “Glacial Gold”.

OVERALL PERFORMANCE

For the year ended September 30, 2021, and through to the MD&A Date, the Company’s performance is highlighted by selected milestones and achievements listed below.

On November 6, 2020, the Company announced that Nextleaf Labs had entered into a cannabis extraction agreement, with Natural MedCo Ltd. (“NMC”), a wholly-owned subsidiary of Eve & Co Incorporated, pursuant which NMC will provide cannabis biomass to be processed into distilled THC and CBD oils at Nextleaf’s closed-loop extraction plant in Metro Vancouver.

On November 26, 2020, the Company announced that it had entered into a cannabis extraction agreement with a licensed producer in Ontario, which is a premium white label flower producer.

On January 12, 2021, Nextleaf Labs received an amendment to its existing Research Licence from Health Canada to conduct controlled human administration trials for sensory evaluation of cannabis at its processing facility in Metro Vancouver.

On January 27, 2021, Nextleaf Labs entered into a hemp processing agreement Green Light Solutions, a British Columbia based company which develops high quality CBD products through its wholly-owned subsidiary, JOE’s Hemp Shack Inc. (“JOE’s”). Pursuant to the processing agreement, JOE’s provides hemp biomass to be processed into CBD refined oil or distillate at the Company’s processing facility. The pricing and value of the processing agreement is based upon the volume of distillate produced by Nextleaf Labs from JOE’S hemp biomass, and the extraction services are paid for in cash.

On March 31, 2021, the Company closed a private placement with an institutional investor for aggregate gross proceeds of \$3,000,000. The financing was completed pursuant to the terms of securities purchase agreement dated March 31,

2021 (the "Securities Purchase Agreement") between the Company and the investor, which provided for the issuance of a senior secured convertible note in the principal amount of \$3,300,000 (the "Note") and a warrant to purchase up to 6,875,000 common shares at a price of \$0.288 per share for a period of 36 months from the date of issuance.

In May 2021, the Company issued 440,000 common shares on the acquisition of all rights associated with the use of the specialty concentrates and extracts brand, "Glacial Gold".

In June 2021, the Company announced that Nextleaf Labs had engaged CannDelta Inc. ("CannDelta") with respect to its application for a Health Canada Controlled Drugs and Substances Dealer's Licence (a "Dealer's Licence"). Upon application submission and approval from Health Canada, the Dealer's Licence is expected to allow Nextleaf Labs to conduct a variety of activities relating to psilocybin and psilocin including R&D, IP development, production of base substance materials, laboratory analysis, as well as the sale and distribution of the substances to authorized individuals, including researchers and for its use in clinical trials.

In July 2021, the Company entered into a supply agreement with the BC Liquor Distribution Branch for the sale and distribution of branded consumer products in the province.

In September 2021, Nextleaf completed its initial consumer branded product launch of Glacial Gold vape cartridges and distilled bottled oils in completing its initial shipment of products to the British Columbia Liquor Distribution Branch.

In September 2021, the Company was authorized by the Saskatchewan Liquor and Gaming Authority to distribute its Glacial Gold branded products through the provincial wholesale and retail markets.

In October 2021, the Company entered into an agreement with Medicibis (Mendo), a Québec-based cannabis product distributor, for the sale and distribution of Glacial Gold branded products through Medicibis' national medical platform.

In October 2021, the Company entered into an agreement with National Cannabis Distribution Inc., a wholly-owned subsidiary of Kiara Holdings Corp., for the sale and distribution of Glacial Gold branded products throughout Saskatchewan.

In November 2021, Nextleaf launched two new branded products under Glacial Gold: Distillate CBD 100 and Distilled CBD 200, both distilled bottle oil products. Upon announcement, Distillate CBD 200 contained the highest potency of CBD available in Canada in an ingestible oil format.

In November 2021, the Company announced that Nextleaf Labs had received acceptance of its application for a Dealer's Licence, now formally under review by Health Canada.

In November 2021, the Company filed a short form base shelf prospectus relating to the offering for sale of equity securities of the Company for a 25-month period, with a total offering price of up to \$20,000,000.

In December 2021, the Company completed a public offering of 15,844,208 units at \$0.20 per unit (the "Units") for gross proceeds of \$3,168,842 under a prospectus supplement dated December 15, 2021. Each Unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable at price of \$0.275 each for a period of 24 months until December 22, 2023.

During the year ended September 30, 2021, the Company recognized revenue of approximately \$3,379,000 in cannabis concentrate and product sales to multiple customers. Due to supply chain challenges and general market uncertainty as a result of the development of the cannabis industry and COVID-19, Management has not determined annual guidance of expected revenue to be generated from existing processing and supply the contracts in fiscal 2022.

SELECTED ANNUAL INFORMATION

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

	September 30, 2021	September 30, 2020	(Restated) September 30, 2019
	\$	\$	\$
Revenues	3,379,194	690,684	-
Loss and comprehensive loss	(5,385,353)	(5,953,616)	(9,014,238)
Loss per share - basic and diluted	(0.04)	(0.05)	(0.10)
Total assets	9,192,755	9,780,757	9,710,837
Total liabilities	5,765,502	2,518,370	1,026,389
Shareholders' equity	3,427,253	7,262,387	8,684,448

FOURTH QUARTER

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

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

	September 30, 2021	September 30, 2020	Change \$
Three months ended	\$	\$	
Revenue	1,336,000	235,000	1,101,000
Gross margin	(362,000)	(501,000)	139,000
Loss from operating expenses	(1,266,000)	(1,613,000)	347,000
Loss and comprehensive loss	(1,945,000)	(2,269,000)	324,000
Cash used in operating activities	(997,000)	(1,133,000)	136,000
Cash provided by investing activities	164,000	231,000	(67,000)
Cash used in financing activities	(263,000)	(16,000)	(247,000)

Revenue

During the three months ended September 30, 2021, the Company earned processing revenues from cannabis concentrate sales of approximately \$1,026,000 from multiple customers, the increase in revenue during the period was a result of the onboarding of new clients and reorders from existing clients. Additionally, the Company recognized its first revenues relating to product sales of approximately \$310,000 during the three month period.

Cash flows provided by investing activities for the three months ended September 30, 2021 was merely a reclassification quarter to quarter of cash outflows between investing and operating activities in relation to the purchases of property and equipment. Cash flows used in financing activities were driven by lease payments on the Company's facility and a scheduled repayment on its convertible debenture during the three months ended September 30, 2021, with no equity financing activities having been completed during the period then ended (the Company subsequently completed an equity financing).

During the three months ended September 30, 2020, the Company commenced commercial activities which included the production and sale of bulk cannabis concentrate in the amount of approximately \$235,000. Cash flows provided by investing activities for the three months ended September 30, 2020 was merely a reclassification quarter to quarter of cash outflows from investing activities to operating activities which in part was a contributor to the \$136,000 decrease in cash used in operating activities.

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

	September 30, 2021	September 30, 2020	Change \$
Three months ended	\$	\$	
Operating expenses			
Investor relations and advertising	36,000	135,000	(99,000)
Professional fees and consulting	245,000	451,000	(206,000)
Research, extraction and lab supplies	4,000	800	3,200
Wages and salaries	287,000	434,000	(147,000)

DISCUSSION OF OPERATIONS

For the years ended September 30, 2021 and September 30, 2020

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

Years ended	September 30, 2021 \$	September 30, 2020 \$	Change \$
Revenue	3,379,000	691,000	2,688,000
Gross margin	(855,000)	(46,000)	(809,000)
Loss from operating expenses	(4,464,000)	(5,824,000)	1,360,000
Loss and comprehensive loss	(5,385,000)	(5,954,000)	569,000
Cash used in operating activities	(2,870,000)	(3,364,000)	494,000
Cash used in investing activities	(21,000)	(2,903,000)	2,882,000
Cash provided by financing activities	2,819,000	2,960,000	(141,000)

Revenue

During the year ended September 30, 2021, the Company earned processing revenues from cannabis concentrate and product sales of approximately \$3,379,000 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 year ended September 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 years ended September 30, 2021 and September 30, 2020 were as follows (amounts are rounded):

Years ended	September 30, 2021 \$	September 30, 2020 \$	Change \$
Operating expenses			
Amortization	349,000	215,000	134,000
Depreciation	13,000	657,000	(644,000)
Investor relations and advertising	339,000	588,000	(249,000)
Professional fees and consulting	1,005,000	1,449,000	(444,000)
Research, extraction and lab supplies	38,000	252,000	(214,000)
Wages and salaries	1,076,000	1,010,000	66,000

- 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.
- 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 commissioning of the extraction facility.
- Research, extraction and lab supplies 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.
- Wages and salaries are reflective of increased staffing levels both at the corporate and production levels.

USE OF PROCEEDS FROM FINANCINGS

The Company has completed the following financings between March 2019 and March 2021, for aggregate gross proceeds of approximately \$15,220,000:

- In March 2019, the Company raised gross proceeds of approximately \$5,000,000 by way of private placement.
- In May 2019, the Company raised gross proceeds of approximately \$4,160,000 by way of private placement.
- In May 2020, the Company raised gross proceeds of approximately \$3,060,000 by way of private placement.
- On March 31, 2021 (the "Convertible Note Financing"), the Company completed executed a Securities Purchase Agreement with a creditor whereby the Company issued a senior secured convertible note for gross proceeds of \$3,000,000.

For the period from closing of the March 2019 financing to the date of the Company's preliminary short form base shelf prospectus of November 15, 2021 (the "Prospectus"), the Company has used the net proceeds of the financings as shown below. The Company notes the below variances do not have a material impact on the Company's ability to achieve its business objectives and milestones, as further set out in the Prospectus.

Use of Available Funds	Previous Disclosure Regarding Use of Proceeds \$	Estimated Use of Proceeds \$
Processing, extraction and distillation equipment	2,600,000	3,260,000
Patents and research and development	710,000	710,000
Procurement and delivery of cannabis products to provincial markets	1,000,000	100,000
Strategic investments	150,000	200,000
Capital markets placement costs	753,000	1,249,000
Extraction contracts	500,000	300,000
Repayment of convertible debt	600,000	600,000
General and administration	6,627,000	6,180,000
Total use of funds	12,940,000	12,599,000
Unallocated working capital	5,280,221	5,621,221
Total	18,220,221	18,220,221

Refer to the Company's Prospectus filed on November 15, 2021, for additional details on its previously disclosed use of proceeds. Additionally, in the Company's news release dated March 31, 2021, it disclosed the intended use of proceeds from the March 2021 Convertible Note Financing to enhance efficiencies through automation and additional manufacturing capabilities.

On December 22, 2021, the Company completed a short-form prospectus financing for gross proceeds of approximately \$3,200,000. The use of proceeds was disclosed in the Company's prospectus supplement to its base shelf prospectus dated December 15, 2021. The use of proceeds disclosed therein will be compared to actuals in the subsequent reporting period.

SUMMARY OF QUARTERLY RESULTS

The following table shows results from the last eight quarters:

Period Ending	Revenue \$	Loss and comprehensive loss \$	Basic and Diluted Loss Per Share \$
September 30, 2021	1,336,229	(1,945,027)	(0.02)
June 30, 2021	655,861	(1,339,732)	(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)	(0.01)

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 \$2,269,000, the average loss equates to approximately \$1,417,000. The Company expects a downward trend due to 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 September 30, 2021, was reflective of estimates and judgments made in respect of loans receivable and other receivables resulting in a loss provision recognized of approximately \$607,000. Gross margin was also lower from the preceding quarter (approximately \$362,000 vs. \$108,000) due to year end revisions to inventory and cost of sales allocations.
- The quarter ended June 30, 2021, saw a reduction in negative gross margin decreasing to (\$107,525) from (\$445,176) quarter over quarter, as revenue from bulk sales increased during the quarter. Loss and comprehensive loss increased as operating expenses increased while government assistance income decreased.
- 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 September 30, 2021, the Company had cash of approximately \$915,000 and a working capital deficiency of approximately \$1,446,000, which includes approximately \$2,652,000 related to the Company's convertible debt. Excluding the convertible debt, the Company had adjusted working capital of about \$1,206,000. Additionally, the Company completed an equity financing subsequent to September 30, 2021, for gross proceeds of approximately \$3,200,000.

Cash flow activities

For the year ended September 30, 2021, the Company incurred a net use of cash of approximately \$73,000. A summary of the Company's cash flows is as follows:

- Cash used in operating activities of approximately \$2,870,000 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 \$21,000, 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 \$2,819,000 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 \$317,000, partially offset by lease payments made on the Company's facility totalling approximately \$66,000, as well as a scheduled repayment towards the Company's convertible debt of approximately \$253,000 for the month of September 2021.

Refer to "Discussion of Operations" above for a discussion on cash flow activities for the three months ended September 30, 2021 and September 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 September 30, 2021 the Company had the following transactions in relation to shareholders' equity:

On December 22, 2021, the Company completed a public offering of 15,844,208 units at \$0.20 per unit (the "Units") for gross proceeds of \$3,168,842 under a prospectus supplement dated December 15, 2021.

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 years ended September 30, 2021 and September 30, 2020 is as follows:

	September 30, 2021	September 30, 2020
	\$	\$
Directors' fees	61,800	63,850
Management fees	442,900	469,100
Share-based payments	121,351	546,342
	626,051	1,079,292

Management fees and share-based payments comprise amounts paid/accrued to the Officers and Directors of the Company either directly, or to companies controlled by them for their services as executive Officers and/or Directors of the Company which includes the CEO, CFO, CTO and other Directors.

Related party balances

Related party balances as at September 30, 2021 and September 30, 2020 are as follows:

	September 30, 2021	September 30, 2020
	\$	\$
Balances included in accounts payable and accrued liabilities:		
Management fees	369,500	206,251
Directors' fees	85,540	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

There were no new accounting policies adopted or changes in the accounting policies applied during the year ended September 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.

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2022. The Company has reviewed these updates and determined that none are applicable or consequential to the Company.

FINANCIAL RISK INSTRUMENTS

The Company classifies its financial instruments as follows:

Financial assets:	Classification:	Subsequent measurement:
Cash	FVTPL	Fair value
Accrued Government assistance	Amortized cost	Amortized cost
Trade receivables	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Financial liabilities:	Classification:	Subsequent measurement:
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Lease liability	Other financial liabilities	Amortized cost
Convertible debenture	Other financial liabilities	Amortized cost
Government loan	Other financial liabilities	Amortized cost

The Company's financial instruments other than 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 year ended September 30, 2021, the Company's cannabis concentrate sales (sale of bulk distillate) and product sales were generated from multiple customers.

During the year ended September 30, 2020, the Company had one customer for cannabis concentrate sales, and one customer for licensing revenue.

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 and amounts advanced as deposits for cannabis extraction equipment totaling \$275,333.

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 partially during the year ended September 30, 2020 and the remainder in full as at September 30, 2021. The provision includes a full write-off of accrued interest on the loan (\$26,535), plus an accumulated provision through to September 30, 2021, of \$775,333 on the loan principal and the equipment deposit, as detailed in the table below. Of the total provision applied, \$620,266 was recognized during the year ended September 30, 2021 (2020 - \$181,602).

As at September 30, 2021, the carrying value of the amount owed from the equipment supplier was \$nil after recognition of loss provisions for the balances in full (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 have not negotiated terms for the repayment to the Company of principal and interest on the loan, and the refund of equipment deposits. 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, 2021.

APPROVAL

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