

NEXXTLEAF™



Nextleaf Solutions Ltd.
Management's Discussion & Analysis
For the nine months ended
June 30, 2022

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 nine months ended June 30, 2022 should be read in conjunction with the Company's condensed interim consolidated financial statements for the nine months ended June 30, 2022 (the "financial statements"), and the annual consolidated financial statements for the year ended September 30, 2021. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All monetary amounts in this MD&A are expressed in Canadian dollars, or as otherwise indicated.

The information contained herein is presented as at **August 29, 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic, which has adversely affected workforces, economies, and financial markets globally. The Company has taken various measures to prioritize the health and safety of its employees, customers, and partners, including restricted work travel and site access; improved safety and hygiene; and the requirement of nonessential staff members to work remotely. As a manufacturer of bulk products which are utilized in the production of consumable and medicinal products, the Company maintains robust quality standards with strict hygiene practices and mandated personal protective equipment. The Company has received various Government subsidies and a loan to assist with operating costs during the pandemic.

COMPANY OVERVIEW

Nextleaf is a federally regulated manufacturer and distributor of cannabis vapes and oils under its award-winning prohibition-era brand, *Glacial Gold*[™]. The Company's multi-patented ingredient processing technology transforms cannabis and hemp biomass into high-purity distillate at an industrial scale. Through its wholly-owned subsidiary Nextleaf Labs Ltd. ("Nextleaf Labs"), a licenced processor, the Company is a low-cost producer of cannabis distillate. Nextleaf Labs holds a Standard Processing Licence from Health Canada that authorizes the sale of cannabis extracts, edibles, and topical products, directly to provincially-authorized distributors and retailers across Canada.

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 has been issued 18 U.S. patents, and over 95 patents globally, on cannabinoid processing including distillation and acetylation. Nextleaf is commercializing its issued and pending patents through licensing of intellectual property, providing extraction services, supplying cannabis ingredients to qualified Canadian business-to-business partners, and selling cannabis products under the Company's brand Glacial Gold.

Nextleaf develops proprietary cannabinoid-based formulations and delivery technology through its Health Canada Research Licence with sensory evaluation of cannabis via human testing.

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 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".

OVERALL PERFORMANCE

For the nine months ended June 30, 2022, and through to the MD&A Date, the Company's performance is highlighted by key milestones as listed below.

During fiscal Q3 2022:

- The Company announced validation of its technology to produce THC-free Broad Spectrum CBD distillate ("THC-Free CBD") from industrial hemp feedstock. Under the Cannabis Act, a pure CBD product is defined as CBD containing less than 0.3% THC. The Company's intellectual property stack covers the extraction and distillation of industrial hemp and uses the new technology to further refine the CBD distillate below the defined threshold. The result is an excise tax-free, broad-spectrum, THC-Free CBD ingredient that may have mass market therapeutic and wellness appeal for consumers looking for all the benefits of CBD with the minor cannabinoids found within the plant, without the THC effects.
- The Company announced that it produced D9-tetrahydrocannabinol acetate (D9-THC-OAc, delta-9-THC-OAc, THC-OAc), colloquially referred to as THC-O ("THC-O"). The Company has received strong interest in its THC Alternative Ingredients from provincial government buyers and other manufacturers. Federal Regulators have confirmed the Company's understanding that THC-O is not subject to excise tax as it does not meet the definition of "Total THC" as defined under the Excise Act 2001, which is aligned with the definition of the same in the Cannabis Act. With THC-O, Nextleaf sees potential for market disruption by launching its novel cannabinoid ingredient as a tax-free alternative to delta-9-THC.

- Excise tax on delta-9-THC extracts makes up a large portion of the price consumers pay, with some delta-9-THC products subject to excise tax over 40% of the duty paid landed cost to provincial government distributors and medical cannabis pharmacies. Nextleaf is commercializing its plant-based THC-O ingredient as a therapeutic product sold under the Company's brands through provincial distributors and medical cannabis sales partners. With the addition of THC-Free CBD Distillate, the Company can now offer its licensed manufacturing partners two distinct tax-free cannabinoids through bulk ingredient purchase.
- The Company announced a strategic agreement with Hempcrete Natural Building Ltd. ("Hempcrete Natural"), an international construction company creating carbon neutral communities, whereby Hempcrete Natural, on a non-exclusive basis, intends to commercialize certain of the Company's intellectual property, specifically, a U.S. patent related to hemp biomass processing for the production of hemp ash.
- The Company was awarded a U.S. patent for technology that maximizes cannabinoid yield and reduces waste. This is the Company's 18th issued U.S. patent.
- Glacial Gold softgels (Summer 2022) were launched, signifying the Company's expansion into the "Capsules" category. Three new Glacial Gold vape SKUs were also launched in B.C., including two new flavours.

During fiscal Q2 2022:

- Cannavolve Inc. ("Cannavolve") was engaged by the Company to provide field coverage at cannabis retailers and support the national rollout of Glacial Gold products. Cannavolve has a wide network of cannabis sales reps throughout every major provincial market in Canada. The partnership will help Nextleaf drive increased distribution and same-store sales of Glacial Gold.
- The Company supplied Canada's first cannabis pharmacy with Glacial Gold products.
- The Company provided the following data on the sales of its Glacial Gold™ cannabis vapes and oils for the three months ended December 31, 2021, in British Columbia:
 - Nextleaf Labs is a top-10 supplier of vapes and oils
 - Glacial Gold™ Anytime Vape is the #1 selling CBD focused vape
 - Glacial Gold™ is the #7 brand in oils by revenue (5.5% market share)
 - Glacial Gold™ is the #7 brand in vape cartridges by units sold (4.1% market share)
 - 12 total Glacial Gold™ product listings in B.C. - including seven high volume 1-gram vape SKUs
 - Multiple Top 20 product rankings within the vape and oil categories in B.C.
 - Approval was received from the Ontario Cannabis Store (OCS) to list Glacial Gold branded products for sale throughout the province of Ontario.
- Glacial Gold CBD and THC products became available in Nova Scotia through Nova Scotia Liquor Corporation cannabis stores.
- Distilled CBD 100 Oil and Distilled CBD 200 Oil became available nationally through its medical cannabis distribution partner, Mendo.

During fiscal Q1 2022:

- 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 a price of \$0.275 each for a period of 24 months until December 22, 2023.
- Two new branded products were launched under the Glacial Gold brand: 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.
- Nextleaf Labs received acceptance of its application for a Dealer's Licence, now formally under review by Health Canada.
- 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.
- The Company entered into an agreement with Medicibus (Mendo), a Québec-based cannabis product distributor, for the sale and distribution of Glacial Gold branded products through Medicibus' national medical platform.

- 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.

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

During the nine months ended June 30, 2022 and to the MD&A Date, the Company had the following changes to its Executive Officers and Board of Directors:

- Effective April 28, 2022, Mr. Kevin Keagan replaced Mr. Charles Ackerman as CFO. Additionally, Mr. Kevin Keagan was appointed to the Board of Directors while Mr. Charles Ackerman stepped down from his position on the Board.
- Effective May 31, 2022, Mr. Sam Kassem was appointed to the Company's Board of Directors. Mr. Kassem's appointment replaces the resignation of Tim Gillis.

DISCUSSION OF OPERATIONS

For the three and nine months ended June 30, 2022 and June 30, 2021

The Company's performance for the nine months ended June 30, 2022 and June 30, 2021 was as follows (amounts are rounded):

	June 30, 2022	June 30, 2021	Change
	\$	\$	\$
Three months ended			
Revenue	1,203,000	656,000	547,000
Gross margin	(111,000)	(108,000)	(3,000)
Loss and comprehensive loss	(1,047,000)	(1,340,000)	293,000
Cash used in operating activities	(455,000)	(1,065,000)	610,000
Cash used in investing activities	-	(142,000)	142,000
Cash (used in) provided by financing activities	(152,000)	94,000	(246,000)
Nine months ended			
Revenue	3,497,000	2,043,000	1,454,000
Gross margin	653,000	(493,000)	1,146,000
Loss and comprehensive loss	(2,574,000)	(3,440,000)	866,000
Cash used in operating activities	(1,041,000)	(1,874,000)	833,000
Cash used in investing activities	(109,000)	(185,000)	76,000
Cash provided by financing activities	492,000	3,082,000	(2,590,000)

Revenue

During the nine months ended June 30, 2022, the Company earned processing revenues from cannabis concentrate and product sales of approximately \$3,497,000 from multiple customers. During the current period, the Company continued to diversify and scale its revenue by growing cannabis product sales through both provincial and medical sales channels.

Over the next year, the Company expects its investment in research and development, and cannabis product development, to support scaling of revenue as the Company enters new provincial and expands distribution of its Glacial Gold branded products. 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 launching its Glacial Gold branded products in Ontario and other provincial adult-use markets, building on existing B2B clients, and expanding from one-off orders to longer-term more consistent supply agreements over the course of fiscal 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.

As revenue scales, management expects many of the cost of sales components to remaining consistent, beyond variable inputs, primarily comprised of biomass – which should result in an improved absorption of cost of sales and further improved gross margin.

Gross Margin

As the Company continues to increase production levels and monetize finished cannabis oils, the Company expects to see increased positive gross margin levels on a more consistent basis. For the nine months ended June 30, 2022, the Company reported positive gross margin of approximately \$653,000.

Cash flows

Refer to “Cash flow activities” below within “Liquidity and Capital Resources” for a discussion of the fluctuations in cash during the nine months ended June 30, 2022.

The use of cash in financing activities during the three months ended June 30, 2022, was driven by convertible debenture repayments and facility lease payments. There were no cash flows from financing activities during the three months ended June 30, 2022.

Certain components of loss from operating expenses and loss and comprehensive loss for the three and nine months ended June 30, 2022 and June 30, 2021 were as follows (amounts are rounded):

Three months ended			
	June 30, 2022	June 30, 2021	Change
	\$	\$	\$
Operating expenses			
Investor relations and marketing	142,000	110,000	32,000
Professional fees and consulting	132,000	281,000	(149,000)
Salaries and fees	319,000	416,000	(97,000)
Nine months ended			
	June 30, 2022	June 30, 2021	Change
	\$	\$	\$
Operating expenses			
Investor relations and marketing	447,000	303,000	144,000
Professional fees and consulting	596,000	760,000	(164,000)
Salaries and fees	1,111,000	1,181,000	(70,000)

- Investor relations and marketing increased as the Company focused increased efforts on leveraging existing commercial and corporate relationships as it expanded its provincial and medical distribution channels for Glacial Gold cannabis products, as well as increased investor relations costs in connection with the Company’s short form prospectus financing in December 2021.
- Professional fees and consulting decreased as a result of continued operational efficiencies as business operations mature.
- Salaries and fees are reflective of consistent production and corporate staffing levels relative to the comparative period.

USE OF PROCEEDS FROM FINANCINGS

The Company has completed the following financings between March 2019 and December 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.
- In March 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.
- In December 2021, the Company raised gross proceeds of approximately \$3,200,000 by way of a short-form prospectus financing.

For the period from closing of the March 2019 financing to June 30, 2022, 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	350,000
Repayment of convertible debt	600,000	600,000
General and administration	7,574,000	6,180,000
Delivery of cannabis products into BC, SK, and NS	400,000	350,000
Delivery of cannabis products into ON and AB	600,000	-
Partial redemption of convertible debt	600,000	600,000
Total use of funds	15,487,000	13,599,000
Unallocated working capital	5,280,221	7,168,221
Total	20,767,221	20,767,221

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.

SUMMARY OF QUARTERLY RESULTS

The following table shows results from the last eight quarters:

Period Ending	Revenue \$	Loss and comprehensive loss \$	Basic and Diluted Loss Per Share \$
June 30, 2022	1,202,638	(1,047,290)	(0.01)
March 31, 2022	1,145,312	(606,917)	(0.00)
December 31, 2021	1,149,347	(919,901)	(0.01)
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)

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 \$1,279,000. 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 quarters ended March 31, 2022 and December 31, 2021, saw reduced losses, as revenues remained over \$1,000,000 during the periods – despite the Company spending significant resources scaling its initial provincial cannabis product launch of Glacial Gold.
- 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objectives when managing its liquidity and capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

Cash and working capital

As at June 30, 2022, the Company had cash of approximately \$456,000 and a working capital deficit of approximately \$340,000. When excluding the Company's convertible debt of approximately \$984,000 as at June 30, 2022, the Company had adjusted positive working capital of approximately \$644,000.

Cash flow activities

For the nine months ended June 30, 2022, the Company incurred a net use of cash of approximately \$XX,000. A summary of the Company's cash flows is as follows:

- Cash used in operating activities of approximately \$459,000, 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 (approximately \$22,000);
- Cash used in investing activities of approximately \$109,000, was driven by payments of property and equipment balances during the first fiscal quarter (December 31, 2021) that were in accounts payable as at September 30, 2021, plus nominal purchases during the period; and
- Cash provided by financing activities of approximately \$492,000 was attributable to proceeds received on the short-form prospectus offering (gross proceeds of approximately \$3,200,000, and net proceeds of approximately \$2,808,000 after cash-based expenses to the financing) and was partially offset by lease payments made on the Company's facility totalling approximately \$52,000, as well as repayments of the convertible debt of approximately \$2,289,000.

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 142,549,157 common shares.

Stock options

As at the MD&A Date, the Company has 16,120,000 stock options outstanding at a weighted average exercise price of \$0.35 each.

Warrants

At the MD&A Date, the Company had 25,572,962 warrants outstanding at a weighted average exercise price of \$0.27 each.

OFF-BALANCE SHEET ARRANGEMENTS

Nextleaf does not utilize off-balance-sheet arrangements.

PROPOSED TRANSACTIONS

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

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel compensation

The remuneration of key management for the nine months ended June 30, 2022 and June 30, 2021 is as follows:

	June 30, 2022 \$	June 30, 2021 \$
Directors' fees (within professional fees and consulting)	42,000	46,350
Management fees (within salaries and fees)	308,000	344,600
	350,000	390,950

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

Related party balances

Related party balances as at June 30, 2022 and September 30, 2021 are as follows:

	June 30, 2022 \$	September 30, 2021 \$
Balances included in accounts payable and accrued liabilities:		
Directors' fees	86,300	85,540
Management fees	160,400	369,500

Amounts are due to CEO, CFO, and CTO, and certain directors relating to management fees and/or directors' fees presented above.

CHANGES IN ACCOUNTING POLICIES

There were no new accounting policies adopted or changes in the accounting policies applied during the nine months ended June 30, 2022.

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 10 to the financial statements.

Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. During the nine months ended June 30, 2022, the Company's cannabis concentrate sales (sale of bulk distillate) and product sales were generated from multiple customers.

CONTINGENCY

As at June 30, 2022 and September 30, 2021, the Company was owed an aggregate \$801,868 from an equipment supplier relating to amounts advanced by the Company as a promissory note ("loan") in previous years and amounts advanced as deposits for cannabis extraction equipment.

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. Of the total provision applied, \$620,266 was recognized during the year ended September 30, 2021. As at June 30, 2022 and 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.

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 MD&A Date, 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.