

NEXXTLEAF™

CSE:OILS

Nextleaf Solutions Ltd.
Management's Discussion & Analysis
For the six months ended
March 31, 2023

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 six months ended March 31, 2023 should be read in conjunction with the Company's condensed interim consolidated financial statements six months ended March 31, 2023, and the audited annual consolidated financial statements for the year ended September 30, 2022 (collectively, the "financial statements"), and the notes thereto. 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 **May 30, 2023** (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.

There are many external factors that can adversely affect general workforces, economies, and financial markets globally. Examples include, but are not limited to, the COVID-19 global pandemic and political conflict in other regions. It is not possible for the Company to predict the duration or magnitude of adverse results of such external factors and their effect on the Company's business or ability to raise funds.

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 sells its branded products through government distributors and authorized retailers in several provinces in Canada. Nextleaf is a low-cost producer of cannabis oils, and supplier of THC and CBD ingredients and private label products to licensed wholesale partners across Canada.

Nextleaf is a global leader in cannabinoid innovation and intellectual property. The Company has been issued 19 U.S. patents, and 100 patents globally, on cannabinoid processing including extraction, distillation, and acetylation. Nextleaf's patented ingredient processing technology transforms unsold cannabis and hemp biomass into high-purity distillate at an industrial scale.

The Company sells its branded cannabinoid vapes, oils, and softgels to the British Columbia Liquor Distribution Branch ("BCLDB"), Ontario Cannabis Store ("OCS"), Nova Scotia Liquor Commission ("NSLC"), National Cannabis Distribution in Saskatchewan, and across Canada by Mendo Medical and select pharmacies. The Company distributes cannabis consumer products under its prohibition-era brand, *Glacial Gold*™ and its new THC brand, *High Plains*™.

Through its wholly-owned subsidiary Nextleaf Labs Ltd. ("Nextleaf Labs"), the Company holds a Standard Processing Licence from Health Canada that authorizes the sale of cannabis products directly to government distributors and authorized retailers across Canada. Nextleaf Labs has received all necessary sales amendments, removing restrictions on sale of any class of cannabis products including dried flower, pre-rolls, vapes, softgel capsules, edibles, ingestible oils, and other extracts. Nextleaf develops cannabinoid-based formulations and delivery technology through its Health Canada Research Licence with sensory evaluation of cannabis via human testing.

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".

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.

OVERALL PERFORMANCE

For the six months ended March 31, 2023, and through to the MD&A Date, the Company's performance is highlighted by key milestones as listed below.

During fiscal Q2 2023:

- Nextleaf generated a significant increase in revenue and purchase orders in 2023, with revenue in January 2023 and February 2023 increasing approximately 46% and 96% respectively, from December 2022 revenue.
- Nextleaf generated positive operating cash flows of approximately \$319,000 for the six months ended March 31, 2023, including positive operating cash flows of approximately \$196,000 for the quarter. Additionally, Nextleaf generated positive overall cash flows of approximately \$31,000 for the six months ended March 31, 2023.
- Nextleaf generated revenue of approximately \$2,580,000 for the quarter, and gross profit of approximately \$448,000. After deducting operating expenses, Nextleaf comparatively reduced the loss incurred for the quarter to only approximately \$25,000.

Subsequent to the quarter as noted below, Nextleaf issued common shares for full and final settlement of the outstanding convertible note.

During fiscal Q1 2023:

- Nextleaf had its first quarter generating positive operating cash flows.
- Nextleaf's *Glacial Gold*™ brand was the #1 ranked brand for CBD vape sales in British Columbia, with over 39% market share. The *Glacial Gold*™ Anytime Vape was the #1 selling CBD vape SKU. *Glacial Gold*™ was the #3 ranked brand for cannabis oil sales in British Columbia.
- Nextleaf entered the cannabis softgel market as the #4 ranked brand by sales in British Columbia. The Company expanded its product mix into cannabis softgel capsules, with the launch of *Glacial Gold*™ THC 10mg Softgels in a 50-pack large format, and 10-pack trial size with 500mg THC and 100mg THC per package respectively, to address the market for edible cannabis products by offering better value (\$ per dose) versus traditional edibles like gummies that are restricted to a maximum 10mg THC per package. Nextleaf has seen strong early demand for its new product format from BC LDB and authorized retailers.

- Nextleaf launched its new High Plains™ brand with a lineup of four high-flavour vape SKUs in British Columbia. High Plains™ vapes are the market leading value price point for THC vapes in B.C. The High Plains™ brand was launched to address the demand from Government Distributors for value priced THC vapes with popular botanical fruit flavours. The Company differentiates its Glacial Gold™ branded vapes by using premium ingredients and all natural flavours.
- Nextleaf entered the Newfoundland and Labrador market through a strategic partnership with Atlantic Cultivation Inc., the number one distributor in the province by sales revenue and market share. Nextleaf is currently supplying private label cannabis vapes, oils, and softgels to the Newfoundland market under the partnership.
- Nextleaf partnered with NOYA Cannabis for the Canadian Launch of Cookies™ "C" branded vapes, with four unique flavours formulated with high-potency THC distillate produced by Nextleaf's patented ingredient processing technology.
- Nextleaf completed its first international shipment of cannabis vape products. THC vapes custom manufactured by Nextleaf under private label are exported and distributed by pharmacies outside Canada where medical cannabis is legal.
- Nextleaf amended the terms of the senior secured note (the "Note") issued to an institutional investor (the "Investor") in 2021, extending the maturity date of the Note to June 1, 2023, and conversion price to \$0.055 per share. Subsequent to the quarter, the Company settled the note in full prior to the maturity date, through the issuance of additional common shares (see below).

SUBSEQUENT EVENTS

Nextleaf issued 4,286,030 common shares to the holder of the convertible note, in respect of the conversion of the remaining principal value of the Note.

DISCUSSION OF OPERATIONS

For the three and six months ended March 31, 2023 and March 31, 2022

The Company's performance for the three and six months ended March 31, 2023 and March 31, 2022 was as follows (amounts are rounded):

	March 31, 2023	March 31, 2022	Change \$
	\$	\$	
Three months ended			
Revenue	2,577,000	1,397,000	1,180,000
Gross profit	448,000	421,000	27,000
Loss from operating expenses	(473,000)	(1,028,000)	555,000
Loss and comprehensive loss	(25,000)	(607,000)	582,000
Cash provided by (used in) operating activities	197,000	(429,000)	626,000
Cash used in investing activities	(5,000)	-	(5,000)
Cash used in financing activities	(148,000)	(524,000)	376,000
Six months ended			
	March 31, 2023	March 31, 2022	Change \$
Revenue	4,004,000	2,784,000	1,220,000
Gross profit	473,000	765,000	(292,000)
Loss from operating expenses	(952,000)	(2,314,000)	1,362,000
Loss and comprehensive loss	(584,000)	(1,527,000)	943,000
Cash provided by (used in) operating activities	319,000	(586,000)	905,000
Cash used in investing activities	(5,000)	(109,000)	104,000
Cash provided by (used in) financing activities	(283,000)	644,000	(927,000)

See "Liquidity and Capital Resources" below for discussion of cash flows.

Revenue

As noted within "Overall Performance" above, key revenue drivers that are specific to the current period include:

- Increased sales and demand for the Company's branded cannabis products under its Glacial Gold™ and High Plains™ brands.
- Increased volume of cannabinoid distillate sales to licensed wholesale customers, despite price compression compared to Q2 2022 resulting in lower dollar sales. Nextleaf supplies THC and CBD distillate to federally licensed partners for distribution under their own brands. Nextleaf is powering the Canadian Launch of Cookies™ "C" branded vapes, and a number of other leading brands.
- Entry into new markets, including Newfoundland and Labrador through its partnership with Atlantic Cultivation, and the Company's first international shipment of THC vape products, being sold in pharmacies where medical cannabis is legal.

The Company disaggregated its revenues from the sale of goods between sales of bulk distillate, branded (Glacial Gold) vape pens, oils, and softgels ("branded extract products"), and private label which includes toll processing and other services.

Revenue stream	Six months ended March 31, 2023				Six months ended March 31, 2022			
	Bulk distillate	Branded extract products	Private label	Total	Bulk distillate	Branded extract products	Private label	Total
Wholesale	922,975	2,231,560	849,918	4,004,453	743,384	1,682,699	357,510	2,783,593
British Columbia	168,332	1,700,094	-	1,868,426	97,682	1,342,617	188,681	1,628,980
Rest of Canada	754,643	531,466	849,918	2,136,027	645,702	340,082	168,830	1,154,613
Total	922,975	2,231,560	849,918	4,004,453	743,384	1,682,699	357,510	2,783,593

Certain components of loss from operating expenses and loss and comprehensive loss for the three and six months ended March 31, 2023 and March 31, 2022 were as follows (amounts are rounded):

	March 31, 2023	March 31, 2022	Change \$
Three months ended	\$	\$	\$
Investor relations and marketing	132,000	77,000	55,000
Professional fees and consulting	210,000	206,000	4,000
Salaries and fees, net	76,000	446,000	(370,000)

	March 31, 2023	March 31, 2022	Change \$
Six months ended	\$	\$	\$
Investor relations and marketing	183,000	305,000	(122,000)
Professional fees and consulting	272,000	464,000	(192,000)
Salaries and fees, net	277,000	792,000	(515,000)

The Company reduced its operating expenses, including salaries and fees, investor relations, and professional fees and consulting. The Company has responded to the market conditions by reducing its expenses and finding operating efficiencies.

Salaries and fees were reduced by reductions taken on management fees, and by recoveries of salaries from Government assistance, namely the Contribution Agreement executed between the Company and NRC-IRAP (National Research Council of Canada's Industrial Research Assistance Program) in October 2022, for non-repayable contributions relating to the reimbursement of certain salaries paid to employees of the Company.

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 \$
March 31, 2023	2,576,657	(25,168)	(0.00)
December 31, 2022	1,427,796	(559,013)	(0.00)
September 30, 2022	1,854,212	(912,608)	(0.03)
June 30, 2022	1,202,638	(1,047,290)	(0.01)
March 31, 2022	1,145,312	(606,917)	(0.00)
December 31, 2021	1,386,131	(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)

Fluctuations in quarterly results are not due to significant seasonal variations. While the quarterly results have ranged from a loss of approximately \$25,000 to \$1,945,000, the simple average loss is calculated as approximately \$919,000.

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

- For the 2023 fiscal quarters ended March 31, 2023 and December 31, 2022, Nextleaf reduced its losses as gross profit improved quarter over quarter (\$448,015 and \$25,215, respectively) compared to the September 30, 2022 quarter, and the Company reduced its operating expenses.

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 March 31, 2023, the Company had cash of approximately \$409,000 and a working capital deficit of approximately \$612,000. When excluding the Company's convertible debt of approximately \$236,000 as at March 31, 2023, the Company had an adjusted working capital deficit of approximately \$376,000. This includes accounts payable of over \$560,500 which the Company expects to eliminate during the current fiscal year, relating to bulk cannabis extract it holds for customers and how B2B processing agreements were accounted for.

Cash flow activities

For the six months ended March 31, 2023, the Company generated positive net cash flows of approximately \$31,000. A summary of the Company's cash flows is as follows:

- The Company generated positive cash flow from operating activities of approximately \$319,000, largely driven by a comparative reduction in operating expenses and increased revenue.
- Cash used in financing activities of approximately \$283,000 was attributable to lease payments made on the Company's facility totalling approximately \$35,000, and repayments of the convertible debt of approximately \$248,000.

SHARE CAPITAL INFORMATION

During the six months ended March 31, 2023, and through to the MD&A Date, the Company issued 15,386,030 common shares to the holder of the convertible note in respect of the conversion of \$861,231 of the principal value of the convertible note, which as at the MD&A Date, is fully extinguished.

In February 2023, the Company issued 678,000 common shares at a fair value of \$33,900 to a consultant of the Company in settlement of accounts payable. There was no gain or loss recognized on settlement of the accounts payable.

Issued and Outstanding

As at the MD&A Date, total issued, and outstanding common shares consists of 159,456,420 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 24,568,712 warrants outstanding at a weighted average exercise price of \$0.21 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 six months ended March 31, 2023 and March 31, 2022 is as follows:

	March 31, 2023	March 31, 2022
	\$	\$
Directors' fees (within professional fees and consulting)	15,000	24,800
Management fees (within salaries and fees)	168,000	216,000
	183,000	240,800

Directors' fees and management fees 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.

Management fees was reduced during the quarter ended March 31, 2023 compared to the same quarter in 2022 (amounts are recorded within salaries and fees).

Related party balances

Amounts payable to related parties as at March 31, 2023 and September 30, 2022 are as follows:

	March 31, 2023	September 30, 2022
	\$	\$
Balances included in accounts payable and accrued liabilities:		
Directors' fees	60,550	90,150
Management fees	216,000	172,600
Expense reimbursements	1,228	-
	277,778	262,750

CHANGES IN ACCOUNTING POLICIES

There were no new accounting policies adopted or changes in the accounting policies applied during the six months ended March 31, 2023.

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2023. 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
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 impacts the financial performance of the Company. During the six months ended March 31, 2023, the Company's cannabis concentrate sales (sale of bulk distillate) and product sales were generated from multiple customers, with a single customer accounting for approximately 42% of total revenue.

CONTINGENCY

As at March 31, 2023 and September 30, 2022, the Company was owed an aggregate \$801,868 from an equipment supplier relating to amounts loaned by the Company in previous years and amounts advanced as deposits for cannabis extraction equipment.

In 2020, the Company issued the equipment supplier a demand notice requesting repayment of the equipment deposit and loan in full (not paid). Accordingly, the Company commenced legal action in 2021 by way of issuing a notice of claim against the equipment supplier, which was met with the equipment supplier issuing 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 amounts loaned, 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 consolidated financial statements for the year ended September 30, 2022.

APPROVAL

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