



Nextleaf Solutions Ltd.
Management's Discussion & Analysis
For the three months ended
December 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 three months ended December 31, 2023 should be read in conjunction with the Company's condensed interim consolidated financial statements for the three months ended December 31, 2023, and the annual audited consolidated financial statements for the year ended September 30, 2023, and the notes thereto (collectively, 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 **February 29, 2024** (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 Company's income, profitability, expectations regarding the market for cannabis products; 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 multiple brands including its award-winning prohibition-era brand, *Glacial Gold*™, and the High Plains™ brand. The Company sells its branded products through government distributors and authorized retailers in several provinces and territories 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 several U.S. patents issued, and several more patents issued 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"), Manitoba Liquor & Lotteries ("MBLL") National Cannabis Distribution in Saskatchewan, and across Canada through multiple medical platforms and select pharmacies.

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 #3 – 68 Schooner Street, Coquitlam, British Columbia, V3B 7B1 and its registered and records office is located at #600 – 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7.

OVERALL PERFORMANCE

For the three months ended December 31, 2023, and through to the MD&A Date, the Company's performance includes key milestones as listed below.

Fiscal Q1 2024:

- In January 2024, Nextleaf reported its annual audited 2023 financial performance, highlighting a debt-free position, and positive cash flows from operations. Fiscal 2023 gross revenues amounted to approximately \$10,000,000 with gross profit of approximately \$2,300,000.
- Concurrently in January 2024, alongside reporting its fiscal 2023 results, Nextleaf provided an overview of its fiscal 2023 achievements, which included strategic milestones and commercial growth:
 - Diverse Product Launches: Successfully introduced 15 new products into the Canadian recreational market, enhancing its product portfolio to meet evolving consumer preferences. This includes the launch of 3 Softgel SKUs, 4 Ingestible Oil SKUs, and 8 Vape SKUs.
 - Extensive Product Listings: Secured and maintained over 75 individual product listings across six provinces, underscoring a commitment to widespread accessibility. Nextleaf brands and products are now accessible in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, and Nova Scotia.
 - Market Expansion: Successfully penetrated two new provincial markets, Alberta, and Manitoba, broadening Nextleaf's brand presence across Canada.
 - Brand Traction in Alberta: Glacial Gold gained immediate traction in Alberta, emerging as a top-selling brand for softgels and oils in the region.
 - Regional Leadership in BC: Achieved the status of the #1 softgel brand in British Columbia in 2023, capturing over 40% of wholesale market share and accounting for more than 50% of all individual softgels sold in the province.
 - Ontario Market Performance: Secured the #4 position in softgel brand rankings in Ontario wholesale during the preceding quarter.
- In February 2024, Nextleaf announced its strategic market expansion through a wholesale distribution agreement, alongside a robust line-up of national product launches slated for Spring 2024.

- The wholesale distribution agreement is with Lineage Distribution (“Lineage”), a licensed cannabis processors and distribution based in Manitoba. Under the terms of this agreement, Lineage will exclusively distribute Nextleaf’s complete product catalogue of over 35 SKUs across four initial categories, including CBD and THC vapes, drops/oils, infused pre-rolls, and softgels. The distribution agreement spans across the Province of Manitoba, Northwest Territories, Nunavut, and the Yukon Territories, showcasing Nextleaf’s commitment to broadening its market reach and accessibility.
- Looking ahead to spring 2024, Nextleaf plans to enter the infused preroll category under its Glacial Gold and High Plains brands. Additionally, the Company aims to introduce large format 100-pack softgels to Ontario and Alberta, offering consumers 3 distinct potencies.

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

During the three months ended December 31, 2023 and to the MD&A Date, the Company had the below changes to its Executive Officers and Board of Directors. As of the MD&A Date, the Company’s Board of Directors comprised of the following four members: Emma Andrews (CEO), Sam Kassem (CFO), Fred Bonner, and Sherry Boodram.

- On September 8, 2023, Paul Pedersen departed as Company CEO and was replaced by Emma Andrews. Emma Andrews was added to the Board of Directors on September 27, 2023. Paul Pedersen served as a Director until December 19, 2023.
- Ghassan (Sam) Kassem replaced Kevin Keagan as CFO on September 27, 20223. Sam Kassem was appointed to the Board of Directors on December 19, 2023. Kevin Keagan served on the Board of Directors until Decemeber 19, 2023.

DISCUSSION OF OPERATIONS

For the three months ended December 31, 2023 and December 31, 2022

The Company’s performance during the three months ended December 31, 2023, and December 31, 2022, is outlined below (amounts are rounded):

	December 31, 2023 \$	December 31, 2022 \$	Change \$
Three months ended			
Revenue	4,122,000	1,428,000	2,694,000
Gross profit	962,000	25,000	937,000
Operating expenses	(829,000)	(479,000)	(350,000)
Income (loss) and comprehensive income (loss)	133,000	(559,000)	692,000
Cash provided by (used in) operating activities	(452,000)	122,000	(574,000)
Cash used in investing activities	(49,000)	-	(49,000)
Cash used in financing activities	(30,000)	(135,000)	105,000

See “Liquidity and Capital Resources” section below for a discussion on cash flows.

Revenue

Refer to the “Overall Performance” section above for key operational aspects contributing to the increase in revenue over the comparative period.

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	Period ended December 31, 2023				Period ended December 31, 2022			
	Bulk distillate	Branded extract products	Private label	Total	Bulk distillate	Branded extract products	Private label	Total
Wholesale	518,805	3,158,318	444,570	4,121,693	274,134	951,048	202,614	1,427,796
British Columbia	81,552	2,173,921	252,265	2,507,737	27,186	781,647	921	809,754
Rest of Canada	437,253	984,398	192,305	1,613,955	246,948	169,401	201,693	618,042
Total	518,805	3,158,318	444,570	4,121,693	274,134	951,048	202,614	1,427,796

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

	December 31, 2023 \$	December 31, 2022 \$	Change \$
Three months ended			
Investor relations and marketing	174,000	51,000	123,000
Professional fees and consulting	142,000	62,000	80,000
Salaries and fees, net	312,000	202,000	110,000

A Contribution Agreement executed with NRC-IRAP (National Research Council of Canada's Industrial Research Assistance Program), for non-repayable contributions relating to the reimbursement of certain salaries paid to employees of the Company, generated proceeds of approximately \$42,000 in the comparative period, compared to \$nil during the three months ended December 31, 2023.

SUMMARY OF QUARTERLY RESULTS

The following table shows results from the last eight quarters:

Period Ending	Revenue \$	Income (loss) and comprehensive income (loss) \$	Basic and Diluted Earnings (loss) Per Share \$
December 31, 2023	4,121,693	132,821	0.00
September 30, 2023	3,295,840	387,640	0.00
June 30, 2023	2,662,626	419,875	0.00
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)

Fluctuations in quarterly results are not due to significant seasonal variations.

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

- The variance in net income for the quarter ended December 31, 2023, compared to the previous quarter was primarily attributed to non-recurring legal fees. Additionally, the variance in net income for the quarter ended December 31, 2023 was caused by reduced production capacity due to the holiday season in December.
- The quarter ended December 31, 2023, was the Company's highest revenue quarter generating approximately \$4,100,000 in revenue, superseding September 30, 2023 as the former highest revenue quarter. Revenue increased 25% over the preceding quarter, and nearly triple the comparative December 2022 quarter.
- The quarter ended June 30, 2023, was the first fiscal quarter in which the Company generated income, attributed to increasing revenues quarter-over-quarter and year-over-year, coupled with increased gross margins for the same reporting periods, and a general reduction in operating expense over the current and preceding fiscal quarters.

LIQUIDITY AND CAPITAL RESOURCES

The Company aims to support further advancement of its business objectives and ensure its ability to meet financial obligations as they come due when managing liquidity and capital.

Cash and working capital

As at December 31, 2023, the Company held approximately \$368,000 in cash, a net decrease of approximately \$531,000 for the three months ended. The Company's working capital stood at approximately \$1,033,000 as of December 31, 2023, marking an increase of approximately \$253,000 for the three months ended. This increase was driven by higher receivables and inventory as at December 31, 2023.

Cash flow activities

For the three months ended December 31, 2023, the Company utilized cash amounting to approximately \$531,000. A breakdown of the Company's cash flows is provided below:

- Net cash outflows from operating activities totaled approximately \$452,000, primarily due to the use of cash in working capital, which exceeded cash flows generated from the current period's operations.
- The Company invested approximately \$49,000 in new manufacturing equipment and leasehold improvements. Additionally, payments on its leased facility amounted to approximately \$30,000.

Subsequent to December 31, 2023 (in January 2024), the Company repaid its Government loan, amounting to \$30,000 net of the balance forgiven in accordance with the terms of the loan.

SHARE CAPITAL INFORMATION

In November 2023, the Company adopted a shareholder rights plan (the "Rights Plan"), which provides for the issuance of one right for each outstanding common share of the Company. Pursuant to the terms of the Rights Plan, any bid that meets certain criteria intended to protect the interests of all shareholders will be deemed a "permitted bid". These criteria require, among other things, that the bid be made by means of a take-over bid circular to all holders of voting shares other than the offeror under the bid and be left open for at least 105 days. In the event a take-over bid fails to meet the permitted requirements of the Rights Plan, the rights issued will entitle shareholders (excluding those involved in the bid) to purchase additional common shares of the Company at a specified exercise price, which is a substantial discount to the market price. The Rights Plan was approved by the Company's shareholders on December 19, 2023.

The Company's annual general and special meeting of shareholders occurred on December 19, 2023, during which the Company resolved to elect the Board of Directors (see below) and approved the Company's shareholder rights plan agreement (see above) in addition to other business in the normal course.

Issued and Outstanding

As at the MD&A Date, the total issued and outstanding common shares amounted to 159,456,420.

Stock Options

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

Warrants

At the MD&A Date, the Company had 7,875,000 warrants outstanding, with a weighted average exercise price of \$0.08 each.

OFF-BALANCE SHEET ARRANGEMENTS

Nextleaf does not engage in 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 three months ended December 31, 2023, and December 31, 2022, is as follows:

	December 31, 2023	December 31, 2022
	\$	\$
Directors' fees (within professional fees and consulting)	9,000	6,000
Management fees (within salaries and fees)	79,500	84,000
	88,500	90,000

Related party balances

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

	December 31, 2023	September 30, 2023
	\$	\$
Balances included in accounts payable and accrued liabilities:		
Directors' fees	47,000	49,300
Management fees	63,183	192,683
	110,183	241,983

On September 8, 2023, the service contract between the Company and a company controlled by Paul Pedersen, former CEO, was terminated. On December 19, 2023, Paul Pedersen also resigned as a Company Director. The related party balances as at December 31, 2023, and September 30, 2023, remain presented in the tables above.

CHANGES IN ACCOUNTING POLICIES

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

In June 2023, the International Sustainability Standards Board ("ISSB") issued the following IFRS Sustainability Disclosure Standards: *General Requirements for Disclosure of Sustainability-related Information* (IFRS S1); and *Climate-related Disclosure* (IFRS S2), which are effective for accounting periods beginning on or after January 1, 2024, but are not currently mandated in Canada. The Company will monitor the continued development of mandating these standards and the requisite disclosure requirements.

IFRS S1 sets out general reporting requirements for disclosing sustainability-related financial information. IFRS S2 requires an entity to disclose information about climate-related risks and opportunities and the impact on an entity's financial position, performance, cash flows, strategy, and business model.

Certain pronouncements have been issued by the IASB, ISSB, or IFRIC that are effective for accounting periods beginning on or after January 1, 2024. The Company has reviewed these updates and determined that none are applicable or consequential to the Company. Additionally, certain new accounting standards have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2024. 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
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 (also see below), 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 three months ended December 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 53% (2023 – 55%) of total revenue.

Credit risk

As at December 31, 2023, and September 30, 2023, the Company was owed an aggregate \$801,868 from a company relating to amounts loaned, or advanced as deposits for equipment, by the Company in previous years. As at December 31, 2023, and September 30, 2023, the carrying value of the amount owed from the equipment supplier was \$nil after historical recognition of loss provisions for the balances in full.

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.

During the three months ended December 31, 2023, the Company recognized a loss provision associated with certain debtors of \$941 (2023 - \$nil).

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, 2023.

APPROVAL

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