Nextleaf Solutions Ltd.

Management's Discussion & Analysis

For the six months ended

March 31, 2024

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, 2024, should be read in conjunction with the Company's condensed interim consolidated financial statements for the six months ended March 31, 2024, and the annual audited consolidated financial statements for the year ended September 30, 2023, and the related 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 **May 28, 2024** (the "MD&A Date").

Additional information relating to the Company is filed with Canadian securities regulatory authorities (www.sedarplus.ca) 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 revenue, sales, 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; intellectual property and patent value; 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; and expectations with respect to future expenditures and capital 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 Annual Information Form ("AIF") from November 2021, filed with Canadian securities regulators 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 six months ended March 31, 2024, and through to the MD&A Date, the Company's performance includes key milestones as listed below. Performance drivers for the first two fiscal 2024 quarters are driven by expanded market presence and increased distribution channels through Alberta, and strategically investing in inventory across key categories to boost commercialization efforts and expand territory sales.

<u>Fiscal Q1 2024 to Q2 2024:</u>

- 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:

    - <u>Diverse Product Launches</u>: 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.

    - <u>Extensive Product Listings</u>: 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.

    - <u>Market Expansion</u>: Successfully penetrated two new provincial markets, Alberta, and Manitoba, broadening Nextleaf's brand presence across Canada.

    - <u>Brand Traction in Alberta</u>: Glacial Gold gained immediate traction in Alberta, emerging as a top-selling brand for softgels and oils in the region.

    - <u>Regional Leadership in BC</u>: 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.

    - <u>Ontario Market Performance</u>: 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, highlighting Nextleaf's commitment to broadening its market reach and accessibility.

Subsequent to fiscal Q2 2024:

- On April 2, 2024, the Company provided a commercial update announcing category expansion with the launch of infused prerolls under the Glacial Gold brand. Additionally, recent Health Canada recommendations to expand access to medical cannabis in-person at pharmacies which would facilitate increased distribution of the Company's softgels enabling Canadian's better access to affordable solutions. Refer to the Company's April 2, 2024, news release for further details about the infused preroll product launch.

CHANGE IN MANAGEMENT AND BOARD OF DIRECTORS

For the six months ended March 31, 2024, 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 (President and 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 appointed 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, 2023. Sam Kassem was appointed to the Board of Directors on December 19, 2023. Kevin Keagan served on the Board of Directors until December 19, 2023.

DISCUSSION OF OPERATIONS

For the six months ended March 31, 2024, and March 31, 2023

The Company's performance during the three and six months ended March 31, 2024, and March 31, 2023, is outlined below:

Six months ended	**March 31, 2024 $**	March 31, 2023 $	Change $
Revenue	8,740,339	4,004,453	4,735,886
Gross profit	1,912,981	473,230	1,439,751
Operating expenses	2,809,749	952,421	1,857,328
Loss and comprehensive loss	(879,052)	(584,191)	(294,861)

Three months ended	**March 31, 2024 $**	March 31, 2023 $	Change $
Revenue	4,618,706	2,576,657	2,042,049
Gross profit	950,516	448,015	502,501
Operating expenses	1,981,046	473,183	1,507,863
Loss and comprehensive loss	(1,011,873)	(25,188)	(986,685)

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 and preceding quarters.

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 streams continue to be diversified through the national launch of the Company's infused preroll offerings.

	Period ended March 31, 2024				Period ended March 31, 2023			
Revenue stream	**Bulk distillate**	**Branded extract products**	**Private label**	**Total**	Bulk distillate	Branded extract products	Private label	Total
Wholesale	**1,023,615**	**6,879,389**	**837,395**	**8,740,399**	**922,975**	**2,231,560**	**849,918**	**4,004,453**
British Columbia	360,608	4,607,697	500,918	5,469,223	168,332	1,700,094	-	1,868,426
Rest of Canada	663,007	2,271,692	336,477	3,271,176	754,643	531,466	849,918	2,136,027
Total	**1,023,615**	**6,879,389**	**837,395**	**8,740,399**	**922,975**	**2,231,560**	**849,918**	**4,004,453**

The Company's revenue growth is driven by sustained momentum across all product categories within the consumer brand portfolio, including vapes, oils, and softgels. The Company's house brands, including acclaimed legacy-to-legal brand Glacial Gold and High Plains Cannabis, launched into Alberta in August 2023. The Company substantially increased its distribution Province-wide and achieved successful sell-through of all initial purchase orders, receiving reorders on all items within both Q1 and Q2 2024.

Adjusted EBITDA[1]

Six months ended	**March 31, 2024 $**	March 31, 2023 $
Loss and comprehensive loss	(879,052)	(584,191)
Non-operating Items:		
Depreciation & Amortization	349,906	366,714
Interests	29,496	15,526
Taxes		
EBITDA	(499,650)	(201,951)
Non-operating Items:		
Share-based compensation expense	1,054,288	-
Adjusted EBITDA	554,638	(201,951)

Three months ended	**March 31, 2024**	March 31, 2023
Loss and comprehensive loss	(1,011,873)	(25,168)
Non-operating Items:		
Depreciation & Amortization	175,780	182,762
Interests	14,487	(10,038)
Taxes		
EBITDA	(821,606)	147,556
Non-operating Items:		
Share-based compensation expense	1,054,288	-
Adjusted EBITDA	232,682	147,556

[1] See cautionary statement regarding non-GAAP performance measures on page 9.

Certain components of operating expenses for the three and six months ended March 31, 2024, and March 31, 2023, were as follows (amounts are rounded):

Six months ended	**March 31, 2024 $**	March 31, 2023 $	Change $
Investor relations and marketing	**380,857**	182,980	197,877
Professional fees and consulting	**189,321**	272,455	(83,134)
Salaries and fees, net	**811,892**	277,422	534,470

Three months ended	**March 31, 2024 $**	March 31, 2023 $	Change $
Operating expenses			
Investor relations and marketing	**206,811**	132,164	74,647
Professional fees and consulting	**47,350**	210,160	(162,810)
Salaries and fees, net	**499,731**	75,561	424,170

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 $75,000 in the comparative period, with no amounts received during the six months ended March 31, 2024.

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 $**
March 31, 2024	4,618,706	(1,011,873)	(0.01)
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)

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:

- Gross revenue for Q2 2024 (March 31, 2024) of approximately $4,600,000 was an increase over the comparative period (Q2 2023) of 80% (increase of approximately $2,042,000), and 12% over the preceding quarter (Q1 2024) (increase of approximately $500,000). As noted above, revenue expansion is attributable to expanded market presence and increased distribution channels. The net loss incurred for Q2 2024, however, was attributable to share-based payments expense (non-cash expense) recognized on the grant and vesting of stock options which totaled approximately $1,054,000. When deducting share-based payments from expenses, the Company would have recognized income for the period of approximately $43,000, and approximately $175,000 year-to-date for the six months ended March 31, 2024.
- The variance in net income for Q1 2024 (December 31, 2023), compared to Q4 2023 (September 30, 2023) was primarily attributed to non-recurring legal fees. Additionally, the variance in net income for Q1 2024 was caused by reduced production capacity due to the holiday season in December. Gross revenue for Q1 2024 of approximately $4,100,000 was an increase over the comparative period (Q1 2023) of 190% and increased 25% over the preceding quarter (Q4 2023).

LIQUIDITY AND CAPITAL RESOURCES

The Company aims to support the 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 March 31, 2024, the Company held approximately $832,000 in cash, a net decrease of approximately $67,000 for the six months ended. The Company's working capital stood at approximately $1,355,000 as at March 31, 2024, marking an increase of approximately $323,000 over the preceding quarter ended December 31, 2023. This increase as at March 31, 2024 compared to December 31, 2023, was driven by a greater net increase in current assets compared to the net increase in current liabilities which are comprised substantially of accounts payable and accrued liabilities. Cash and receivables were the components of current assets that increased over the preceding period.

Cash flow activities

Six months ended	**March 31, 2024 $**	March 31, 2023 $	Change $
Cash provided by operating activities	7,267	318,719	(311,452)
Cash used in investing activities	(64,063)	(5,029)	(59,034)
Cash used in financing activities	(10,532)	(282,851)	272,319
Change in cash	(67,328)	30,839	

Three months ended	**March 31, 2024 $**	March 31, 2023 $	Change $
Cash provided by operating activities	459,298	196,432	262,866
Cash used in investing activities	(15,297)	(5,029)	(10,268)
Cash provided by (used in) financing activities	19,734	(147,611)	167,345
Change in cash	463,735	43,792	

- The variance in net cash provided by operating activities was largely a result of normal course fluctuations in components of working capital and increasing cash flows from higher revenue and gross margins in recent quarters.
- Investing and financing activities were characterized by an investment of approximately $64,000 in new manufacturing equipment and leasehold improvements alongside approximately $60,000 in payments on the manufacturing facility. In January 2024, the Company repaid $30,000 of its government loan (resulting in a $10,000 balance forgiveness recognized within other income). Further, $80,000 was received for the exercise of warrants at $0.08 each.

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 160,992,134.

During the six months ended March 31, 2024, the Company issued:

- 1,000,000 common shares on the exercise of warrants at price of $0.08 each for proceeds of $80,000; and
- 535,714 common shares to certain employees and executives of the Company for past and future services at fair value of $0.15 each.

Stock Options

As at the MD&A Date, the Company had 11,885,000 stock options outstanding, with a weighted average exercise price of $0.17 each.

Warrants

At the MD&A Date, the Company had 6,875,000 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 six months ended March 31, 2024, and March 31, 2023, is as follows:

	March 31, 2024	March 31, 2023
	$	$
Directors' fees (within professional fees and consulting)	21,000	15,000
Executive salaries and fees - paid or accrued	-	168,000
Executive salaries and fees - shares issued	21,429	-
	42,429	183,000

During the six months ended March 31, 2024, 142,857 common shares with a fair value of $21,429 ($0.15 each) were issued for executive salaries and fees. Of this amount, $10,715 was included within prepaid expenses as at March 31, 2024, with the remaining $10,714 recognized through salaries and fees for the six months then ended.

During the six months ended March 31, 2024, the Company granted 2,300,000 stock options to officers and directors of the Company exercisable at $0.14 each which vested immediately. Accordingly, share-based payments expense of $244,319 was recognized on grant.

Related party balances

Amounts payable to related parties as at March 31, 2024 and September 30, 2023, are as follows:

Balances included in accounts payable and accrued liabilities:	**March 31, 2024** **$**	September 30, 2023 $
Directors' fees	-	49,300
Management fees	-	192,683
	-	241,983

On September 8, 2023, the service contract between the Company and a company controlled by Paul Pedersen, the former CEO, was terminated. Additionally, on December 19, 2023, Paul Pedersen was not re-elected as a Company Director. The related party balances as at September 30, 2023, remain presented in the table above.

CHANGES IN ACCOUNTING POLICIES

New accounting policies

Certain pronouncements have been issued by the IASB or IFRIC that are effective for the Company's accounting period beginning on October 1, 2023. With the exception of changing the Company's accounting policies from "significant" to "material", the Company has reviewed all other updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these material accounting policies.

Standards issued but not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for the Company's accounting period beginning on or after October 1, 2024. The Company has reviewed these updates and determined that none are applicable or consequential to the Company and have been excluded from discussion within these material accounting policies.

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.

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 six months ended March 31, 2024, 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 – 42%) of total revenue.

Credit risk

As at March 31, 2024, 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 March 31, 2024, 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 six months ended March 31, 2024, the Company recognized a recovery of a historical loss provision of $2,716 (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.

CAUTIONARY STATEMENT REGARDING NON-GAAP PERFORMANCE MEASURES

This MD&A contains certain financial performance measures that are not recognized or defined under IFRS (termed "Non-GAAP Measures"). As a result, this data may not be comparable to data presented by other cannabis companies. For an explanation of these measures to related comparable financial information presented in the Financial Statements prepared in accordance with IFRS, refer to the discussion below. The Company believes that these Non-GAAP Measures are useful indicators of operating performance and are specifically used by management to assess the financial and operational performance of the Company. These Non-GAAP Measures include but are not limited to working capital.

APPROVAL

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