



Adastra Holdings Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2023 and 2022

This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Adastra Holdings Ltd., together with its wholly-owned subsidiaries (the "**Company**" or "**Adastra**") constitutes management's review of the factors that affected the Company's financial and operating performance for years ended December 31, 2023 and 2022. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 *Continuous Disclosure Obligations*. This MD&A should be read in conjunction with Adastra's audited consolidated financial statements ("**financial statements**") for the years ended December 31, 2023 and 2022 which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Except as otherwise indicated, all financial data in this MD&A has been prepared in accordance with IFRS issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

All monetary amounts in the MD&A are expressed in Canadian dollars, except number of shares, or as otherwise indicated. Additional information regarding the Company is available on SEDAR at www.sedar.com, and the Company's website www.adastraholdings.ca. This MD&A has been prepared effective as of April 23, 2024.

The Company's financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations, complete additional financings, and/or extend or modify its mortgage payable. The Company's financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue in existence.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information within the meaning of Canadian securities laws (collectively referred to herein as "**forward looking statements**"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements, including those identified by the expressions "considers", "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved", or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "will", "intends", and "estimates".

Such forward-looking statements are based on numerous assumptions, including among others, the Company's ability to create long-term value for its shareholders and establish itself as a premier cannabis processing company; the Company's ability to grow market share; the Company's ability to develop new and innovative products, including but not limited to cannabis extracts such as oils, tinctures, sprays, capsules and soft gels; the Company's ability to operate in a cost-efficient manner; the Company's ability to fulfill consumer demand in Canada; the Company's expectations with respect to future increases in product output; the Company's ability to fulfill current and future orders; the Company's expectations with respect to continuing demand for its products; the Company's expectations with respect to the expansion of its line of cannabis products; the Company's ability to achieve positive cash flow from operations; the Company's ability to expand into new provincial and territorial markets; the Company's expectations with respect to maintaining a competitive advantage over competitors; the impact of changes on accounting standards on the

Company's financial statements; the Company's ability to finance operating costs with current cash on hand and cash flow from operations; the Company's expectations with respect to other economic, business, and/or competitive factors; the Company's expectations with respect to the validity, use and scope of its licences throughout Canada; and the Company's expectations with respect to its regulatory and statutory obligations.

Forward-looking statements are not guarantees of future performance, but are instead based on the reasonable assumptions and estimates of management of the Company at the time they are made and involve known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements contained in this MD&A. Such factors include, but are not limited to the factors discussed in the section entitled "Risks and Uncertainties" herein.

Forward-looking statements contained herein are made as of the date of this MD&A and, other than as required by law, the Company disclaims any obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information, future events or results or otherwise. Additionally, the Company undertakes no obligation to comment on analysis, expectations or statements made by third parties in respect of its financial/operating results or securities.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive and all forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements.

The forward-looking statements contained herein are based on information available as of April 23, 2024.

ABOUT ADASTRA

Adastra Holdings Ltd. was incorporated under the laws of the Province of British Columbia on October 14, 1987. The Company extracts and processes cannabis for sale to the recreational and medical markets in Canada using its state-of-the-art large scale extraction facility (the "Facility") to produce a variety of products including vape pens, wax, resin, infused pre-rolls, diamonds and shatter. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "XTRX". The Company's head office is located at 5451 275th Street, Langley City, British Columbia, V4W 3X8 and its registered and records office is located at 2200-885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

On September 1, 2021, the Company changed its name to Adastra Holdings Ltd. Trading of the Company's common shares resumed under the new name and under the same ticker symbol "XTRX" on the CSE as the market opened on September 1, 2021.

RECENT HIGHLIGHTS

The Company's focus for the year ended December 31, 2023 included the expansion and increased efficiency of its operations at its centralized processing facility in Langley, BC. As of the date of this MD&A, the Company is focused on generating revenue from four primary verticals: cannabis manufacturing and direct sales of cannabis products; MSP fees for cannabis consultations; educational fees for clients' referral to licenced cannabis producers; and the licensing of cannabis trademarks.

During the year ended December 31, 2023, the Company had the following breakdown of revenues:

- Cannabis manufacturing revenues
 - o Cannabis product sales of \$37,106,185 before excise taxes (2022 - \$15,613,320)
 - o White label manufacturing and tolling revenues of \$198,705 (2022 - \$1,180,955)
- MSP remittance revenue \$228,664 (2022 - \$273,253)
- Cannabis educational fees and referral revenues of \$133,284 (2022 - \$154,967)
- Licensing revenues of \$nil (2022 - \$909,331)

The Company had gross revenue of \$37,666,838 for the year ended December 31, 2023 compared to \$18,131,826 for the year ended December 31, 2022. This represents a 108% increase in gross revenues from the comparable period.

Excise taxes of \$15,444,193 were incurred during the year ended December 31, 2023 compared to \$4,836,748 in the comparable period. The increase in excise taxes are primarily due to the Company selling more products subject to excise tax directly to retailers and wholesalers. As at December 31, 2023, the Company is in arrears on payments of excise taxes which will consume significant cash flows in future periods.

The Company achieved a gross profit of \$7,566,833 for the year ended December 31, 2023 compared to \$6,112,049 in the comparable period, achieving a growth of 24%. This was mainly achieved by increasing total sales revenue during the year.

Operating expenses increased from \$6,912,045 in the year ended December 31, 2022 to \$9,360,592 during the year ended December 31, 2023. This represents an increase in operating expenses of 35% from the comparable period. The Company reduced operating expenses as a percentage of gross revenues from 38% during the year ended December 31, 2022 to 25% during the year ended December 31, 2023. This reduction in operating expenses as a percentage of revenues demonstrates the Company's ability to keep operation costs stable while continuing to grow revenues.

For the year ended December 31, 2023, the Company had a net loss and comprehensive loss of \$ 3,544,642 (2022 - \$4,281,639). During the year ended December 31, 2023, the net loss and comprehensive loss included a \$442,668 one-time charge to loss on termination of license agreement, a \$220,800 impairment of intangible asset, a \$482,103 one-time charge to the impairment of inventory, and a \$459,577 impairment of property and equipment. During the year December 31, 2022, the Company had a one-time charge to impairment of PerceiveMD goodwill for \$1,672,233 and a loss on termination of license agreement for \$1,542,492.

The Company had cash of \$1,378,960 at December 31, 2023 compared to \$1,013,867 as at December 31, 2022. The Company continues to closely monitor and manage cash.

Working capital deficit as at December 31, 2023 was \$6,039,153 compared to \$3,665,081 as at December 31, 2022. During the year ended December 31, 2023, the Company renewed the \$3,500,000 mortgage with a new maturity date of November 1, 2024. The Company expects to renew the mortgage for another year with similar terms.

On March 15, 2023, the Company announced that it has been served with a civil claim filed in the Supreme Court of British Columbia pursuant to the *Class Proceedings Act, R.S.B.C. 1996, c. 50* alleging that the Company's press release of February 22, 2023 (the "**Press Release**") misstated certain material facts which misled the plaintiff in the claim. The suit also names the Company's wholly-owned subsidiary Adastra Labs Inc. ("**ALI**") and the Company's Former Chief Executive Officer, Mr. Michael Forbes. The Company denies the allegations in the claim and specifically that the Press Release was misleading, and the Company intends to vigorously defend against these allegations should the class action be certified. Currently, no specific amount of damages is claimed.

On March 16, 2023, the Company announced that it has engaged Hybrid Brand Management ("**Hybrid**") to expand its sales coverage and product sell-through in British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario, with regular in-store activations and staff product education sessions. Hybrid serves approximately 2,800 cannabis retailers in Canada. In addition, the Company announced that during January and February 2023 it has shipped a record volume of 379,343 grams of cannabis products and achieved this result with over 1,300 orders. The Company subsequently terminated the engagement with Hybrid on December 31, 2023.

On April 6, 2023, the Company announced that it had entered into an investor relations agreement with Apollo Shareholder Relations Ltd. ("**Apollo**") for a monthly fee of \$15,000 for an initial three-month term, continuing on a monthly basis thereafter. Apollo provides investor communications and is based out of Victoria, British Columbia which provides email marketing, investor outreach, content creation and live events.

On October 11, 2023, the Company announced that Adastra's in-house brand, Endgame Extracts ("**Endgame**"), won "Brand of the Year" at the 2023 Growup Awards and Gala. In addition, Creed Taylor, an Adastra employee, won the Extraction Specialist of the Year award for his contributions on the Endgame brand.

On December 15, 2023, the Company announced a change of auditor to MNP LLP.

On March 1, 2024, the Company announced that it had received a record single purchase order from the Alberta Gaming, Liquor & Cannabis agency totalling \$1,047,439. The purchase order was secured by the Company in early February and included a wide range of Adastra's product mix, including offerings from its in-house brand, Endgame.

On March 14, 2024, the Company announced a record in total purchase orders received in January and February 2024 of approximately \$8.3M.

Recent Management Changes

On February 14, 2023, the Company announced that it had appointed Lachlan McLeod as the Chief Financial Officer. On April 2, 2024, Mr. McLeod was additionally appointed as Corporate Secretary of the Company.

On February 29, 2024, the Company announced that Michael Forbes resigned as CEO, Director and Corporate Secretary, to be effective on March 29, 2024. Mr. Forbes will be focusing on his other ventures in the cannabis and health space.

On March 13, 2024, Andrew Hale, MBA, BSAE, PMP, joined the Company's Board of Directors. Mr. Hale is the founding CEO of Adastra and a seasoned leader of high performing teams delivering operations and complex program excellence. He brings decades of leadership and management experience to the Company. Mr. Hale commanded three nuclear-powered submarines in the U.S. Navy, overseeing US\$4B in national assets. Later, he managed a \$3B construction program at Seaspan Vancouver Shipyards as Program Director, before becoming Vice President, Program Delivery, overseeing all major projects under the Canadian National Shipbuilding Strategy. Mr. Hale holds a Bachelor of Science in Aerospace Engineering from the United States Naval Academy and an MBA from the University of Massachusetts at Amherst.

On April 2, 2024, Jon Edwards joined the Company's board of directors. With over 15 years of experience, Mr. Edwards has held various positions within the B.C. Public Service, specializing in interpreting and applying legislation for the Ministry of Justice and Housing. He holds a Bachelor of Arts in Justice Studies and a Master of Arts in Conflict Analysis and Management, both from Royal Roads University.

On April 12, 2024, Smoke Wallin resigned from the Board of Directors of the Company and Lachlan McLeod was appointed as Interim CEO of the Company, in addition to his duties as CFO and Corporate Secretary.

Licences

On March 13, 2020, the Company, through its wholly-owned subsidiary, ALI, received a Standard Processing licence for the Company's Facility in Langley authorizing the sale of cannabis extract, cannabis edibles, and cannabis topicals.

On April 16, 2021, the Company received an amendment to its Analytical Testing Licence allowing for organoleptic testing of its products.

In August 2021, the Company submitted a further sales licence amendment for dried flower and a controlled substance dealer's licence for cannabis products. On December 16, 2021 the Company received its Flower Sales Licence from Health Canada, that permits the Company to sell dried cannabis flower products provincially and territorially in Canada.

On August 12, 2022, the Company received its medical sales licence (the "**Medical Sales Licence**") that permits the Company to sell cannabis extracts to medical cannabis patients and licenced health practitioners and to develop products classed as cannabis extracts such as tinctures, oils, capsules, soft gels and sprays.

On August 24, 2022, the Company received its Controlled Substances Dealer's Licence (the "**Dealer's Licence**") which allows the Company to procure and process controlled substances, including synthesis, propagation, cultivation, and harvesting of psychedelic mushrooms for psilocybin extraction, research and manufacture controlled substances such as psilocybin and business-to-business sale of controlled substances, including by export. The Dealer's License does not permit the Company to sell controlled substances to the public. For such substances, the Company is only permitted to sell to other licenced dealers who have such substances listed on their license including pharmacists, practitioners, hospitals, or the holder of a Section 56(1) exemption for research purposes under the *Controlled Drugs and Substances Act* (the "**CDSA**").

On February 22 and March 3, 2023, the Company announced that its wholly-owned subsidiary, ALI, received approval from Health Canada on February 17, 2023, for its amendment of the Dealer's License to include the following regulated activities: possession, production, assembling, sale/provision and sending, transportation and delivery of certain controlled substances in limited quantities. The Dealer's Licence does not permit ALI to sell controlled substances to the general public. Under the Dealer's Licence, ALI is only permitted to sell to other licenced dealers who have such controlled substances listed on their licence including pharmacists, practitioners, hospitals or the holder of a section 56(1) exemption for research purposes under the CDSA. On August 1, 2023, the Dealer's License was renewed with an expiry date of July 31, 2026.

The Company is not currently undertaking any activities with psilocybin, cocaine, or coca leaf under the Dealer’s Licence, including selling to other licenced dealers, business-to-business sale, or export, and does not intend to undertake any activities relating to controlled substances for the foreseeable future. As such, the Company has no plan to use or rely upon the Dealer’s Licence as at the date of this MD&A. At this time, and for the foreseeable future, the Company solely intends to pursue its cannabis extracts business.

Below is a chart containing all of the Company’s current licences, the activities permitted under each licence, any restrictions on the use of each licence, and expiry dates:

Licence	Permitted Activities	Restrictions	Expiry Date
Standard Processing (Health Canada Licence No. LIC-SRIM66H586- 2023)	<ul style="list-style-type: none"> To possess cannabis To produce cannabis, other than obtain it by cultivating, propagating or harvesting it To sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations 	<ul style="list-style-type: none"> The licence holder must meet the requirements set out in the Health Canada document entitled “<i>Mandatory cannabis testing for pesticide active ingredients - Requirements</i>” The only cannabis products that the licence holder may sell or distribute to a holder of (i) a licence for sale, and (ii) a person that is authorized under a provincial act referred to in subsection 69(1) of the <i>Cannabis Act</i> (the “Act”) to sell cannabis, are as follows: cannabis plants, cannabis plant seeds, dried cannabis, fresh cannabis, cannabis topicals, cannabis extracts, and edible cannabis. The only cannabis products that the licence holder may send or deliver to the purchaser at the request of (i) a holder of a licence for sale, and (ii) a person that is authorized under a provincial act referred to in subsection 69(1) of the <i>Act</i> to sell cannabis, are as follows: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis. 	February 16, 2028
Sale for Medical Purposes (Health Canada Licence No. LIC-SRIM66H586- 2023)	<ul style="list-style-type: none"> To possess cannabis To sell cannabis products in accordance with section 27 and Part 14, Division 1 of the Cannabis Regulations 	N/A	February 16, 2028
Analytical Testing (Health Canada Licence No. LIC-WOUX7802CE- 2022) [issued to Chemia Analytics Inc.]	<ul style="list-style-type: none"> To possess cannabis for the purpose of testing To obtain cannabis by altering its chemical or physical properties by any means for the purpose of testing 	<ul style="list-style-type: none"> Any pesticide testing activities conducted under the scope of Health Canada’s “Mandatory cannabis testing for pesticide active ingredients–Requirements” must meet the requirements set out in that document 	August 24, 2027
Research (Health Canada Licence No. LIC-ZIDPSA6BYY- 2021-2)	<ul style="list-style-type: none"> To possess cannabis for the purpose of research To produce cannabis for the purpose of research 	<ul style="list-style-type: none"> This licence is restricted, in addition to all other applicable conditions, in that all research conducted under this licence is based on the Research Protocol “Organoleptic - Sensory – Taste Testing of Cannabis Products” provided to Health 	April 16, 2026

		<p>Canada on January 26, 2021</p> <ul style="list-style-type: none"> • The maximum quantity of cannabis to be stored for the purpose of research at the address indicated on this licence is: 11 kg of dried cannabis (or equivalent) at any given time • The researcher may only possess and produce cannabis if such possession and production is to use in accordance with the research protocol submitted • With respect to research involving the administration or distribution of cannabis to human research subjects for assessments of taste, sight, smell or touch of cannabis, in addition to any other conditions listed in this licence, the researcher must meet the requirements set out in the document entitled <i>Appendix: Additional conditions for licenced researchers administering or distributing cannabis to human research subjects using cannabis obtained from a holder of a licence for processing in the final form of cannabis</i> • All record keeping requirements pertaining to this research licence must be met in accordance with Part 11 of the Cannabis Regulations • At the end of the research, all cannabis must be destroyed in accordance with s.43 of the Cannabis Regulations unless distributed in a manner authorized by the Cannabis Regulations 	
<p>Dealer's Licence (Health Canada Licence No. 6-1360)</p>	<ul style="list-style-type: none"> • Possession, production, assembling, sale/provision, sending, transportation and delivery of controlled substances, including their salts as listed in the Regulations and specified by this licence • List of controlled substances, including their salts, that are specified in the licence are as follows: psilocybin (up to 1000g), and cocaine (up to 250g) 	<ul style="list-style-type: none"> • Under the Dealer's Licence, holder is only permitted to sell to other licenced dealers who have such substances listed on their licence including pharmacists, practitioners, hospitals or the holder of a section 56(1) exemption for research purposes under the CDSA • Psilocybin may only be sold or provided to the holder of a dealer's licence for controlled substances or the holder of an authorization issued under subsection J.01.059(4) of Part J of the Food and Drug Regulations • Any sale or provision of psilocybin or psilocybin-containing fungi, other than to another licenced dealer, must be approved in writing by Health Canada prior to the sale or provision taking place • Sale or provision to the holder of a CDSA subsection 56(1) exemption is strictly prohibited • The sale or provision of psilocybin to a licenced dealer or authorization holder may only be for clinical testing in the institution by qualified investigators for the purpose of determining the hazards and efficacy of the drug; or laboratory research in the institution by qualified investigators; or 	<p>July 31, 2026</p>

		destruction <ul style="list-style-type: none"> • Room 121 is a restricted room at the Langley facility • Access to room 121 is restricted to the following individuals: designated personnel for this licence, as per the most recent list of approved personnel issued by Health Canada; or employees conducting activities under this licence and under the supervision of designated personnel for this licence • This licence does not authorize the cultivation of fungi or plants containing controlled substance(s) 	
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SELECTED ANNUAL INFORMATION

	Year ended December 31, 2023 (Audited) \$	Year ended December 31, 2022 (Audited) \$	Year ended December 31, 2021 (Audited) \$
Revenue	37,666,838	18,131,826	5,628,616
Excise taxes	(15,444,193)	(4,836,748)	-
Net loss	(3,544,642)	(4,281,639)	(2,749,939)
Loss per share (basic and diluted)	(0.07)	(0.07)	(0.05)
Cash provided by (used in) operating activities	1,861,263	1,319,111	(1,054,093)

Consolidated Statements of Financial Position	At December 31, 2023 (Audited) \$	At December 31, 2022 (Audited) \$	At December 31, 2021 (Audited) \$
Assets			
Current assets	10,877,957	8,995,126	4,220,654
Non-current assets	21,464,814	22,808,819	24,534,796
Total assets	32,342,771	31,803,945	28,755,450
Liabilities			
Current liabilities	16,917,110	12,660,207	5,341,267
Non-current liabilities	740,513	913,948	1,041,467
Total liabilities	17,657,623	13,574,155	6,382,734
Total shareholders' equity	14,685,148	18,229,790	22,372,716
Total liabilities and shareholders' equity	32,342,771	31,803,945	28,755,450

Over the prior three years, the Company has continued to grow total sales and total assets. During the year ended December 31, 2023, the Company had increased sales by 108% from the prior year. Sales of the Company's Endgame brand have gained traction in the market. During the year ended December 31, 2023, the Company was focused on increasing sales and the throughput of the Facility. The Company expects the trend of increasing sales to continue into 2024 but at a slower rate. Management has noted that many of our direct competitors have cease operations in F2023 and so far in F2024.

The net loss in the year ended December 31, 2023 decreased from the prior year by \$410,573 or 9.6%. The Company

expects the net loss to continue to decrease as sales increase in 2024. This is expected to be achieved by the Company maintaining operating costs at similar levels in future years.

Discussion of Operations for the year ended December 31, 2023 compared to the year ended December 31, 2022:

Revenues increased to \$37,666,838 during the year ended December 31, 2023 (“**F2023**”), compared to \$18,131,826 during the year ended December 31, 2022 (“**F2022**”), due to revenue from a range of provincial distributors which were only beginning to come online in 2022. These sales augmented the existing revenue from the processing of cannabis biomass for third-party licenced producers, in-house distillate production, hydrocarbon extraction, licensing revenues from the acquisition of 1204581 B.C. Ltd. dba Phyto Extractions (“**Phyto**”), and MSP remittance and referral revenue from the acquisition of 1225140 B.C. Ltd. dba PerceiveMD (“**PerceiveMD**”).

Excise taxes of \$15,444,193 are included in the net sales in F2023 compared to \$4,836,748 in F2022. In the comparable period, the Company had more sales which did not require excise taxes to be charged. In late 2022 and throughout 2023, the Company increased sales to distributors and retailers which require excise stamps to be used on the sale.

Cost of sales increased to \$14,655,812 during F2023, compared to \$7,183,029 during F2022, driven by increased sales. Cost of sales consists of biomass, terpenes, solvents, packaging, production labour, and an allocation of production overheads such as facility costs, product recall insurance, utilities, and depreciation of production equipment and the building. During the year ended December 31, 2023, the cost of sales included an impairment of inventory totalling \$482,103. The overall cost of sales as a percentage of gross revenues has decreased from 40% during F2022 as compared to 39% during F2023 because of increasing economies of scale and reduced pricing of inputs of production.

During F2023, the Company had operating expenses of \$9,360,592 and a net loss and comprehensive loss of \$3,544,642, compared to operating expenses of \$6,912,045 and net loss and comprehensive loss of \$4,281,639 during F2022. The change in operating expenses were the result of the Company’s expansion during the period. The most significant changes in operating expenses were as follows:

- General and administrative expenses increased to \$4,011,594 during F2023, compared to \$3,253,731 during F2022, due to the following changes:
 - Wages and salaries increased \$332,830 to \$1,591,150 during F2023 due to the Company hiring more staff to support growing operations.
 - Office expenses increased by \$448,243 to \$1,134,991 during F2023 due to an increase in regulatory compliance expenses, software subscriptions, and rent expenses for a non-cannabis storage warehouse.
 - Insurance expenses decreased by \$123,802 to \$55,128 during F2023 due to more insurance costs being allocated to production of inventory.
 - Professional fees and consulting increased by \$144,085 to \$1,054,649 in F2023 due to increased legal fees associated with the class action lawsuit.
- Sales and marketing expenses increased to \$4,623,912 during F2023, compared to \$3,018,237 during F2022 due to the following changes:
 - Wages and salaries decreased \$150,961 to \$424,801 during F2023 due to the Company engaging a third-party consulting company for sales services included in advertising and promotion expenses.
 - Advertising and promotion expenses increased by \$1,358,663 to \$2,636,391 in F2023 due to the Company using a third-party sales consulting firm. Also, the Company increase promotional activities during F2023 to grow the Endgame brand awareness.
 - Data program expenses increased \$396,061 to \$1,438,277 in F2023 due to the Company increasing the use of data subscriptions during the year.
- Depreciation and amortization charged to operating expenses increased to \$536,467 during F2023, compared to \$501,364 during F2022, due to the Company having capital asset additions of \$718,651 during F2023.
- Provision for expected credit losses increased to \$188,619 in F2023 (2022 - \$nil) due to the Company estimating the amount of receivables that will be uncollectible.

During F2023, the Company had the following other income (expenses):

- Interest expense increased to \$1,040,193 in F2023 (2022 - \$343,918) due to the increase in interest rates on the mortgage as well as the increased balance of the excise taxes owed to the Canada Revenue Agency.
- During F2023, the Company recognized an impairment of intangible assets totalling \$220,800 due to the Company’s inability to leverage the patient list acquired with PerceiveMD.
- During F2023, the Company recognized an impairment loss of \$459,577 related to extraction equipment which

was replaced due to advancements in the extraction processes. The impairment loss was based on a fair value less cost of disposal of \$nil as at December 31, 2023.

- During F2023, the Company recognized a loss on termination of license agreement for \$442,668 due to uncollectible accounts receivable related to the termination of the Phyto license agreement.

SELECTED QUARTERLY INFORMATION

Discussion of Operations for the three months ended December 31, 2023 (“Q4 2023”) compared to the three months ended December 31, 2022 (“Q4 2022”):

Revenues increased to \$9,124,611 during Q4 2023, compared to \$6,817,412 during Q4 2022, due to revenue from a range of provincial distributors which were only beginning to come online in 2022. These sales augmented the existing revenue from the processing of cannabis biomass for third-party licenced producers, in-house distillate production, hydrocarbon extraction, licensing revenues from the acquisition of Phyto, and MSP remittance and referral revenue from the acquisition of PerceiveMD.

Excise taxes of \$4,124,459 are included in total sales in Q4 2023 compared to \$2,664,396 in Q4 2022. In the comparable period, the Company had more sales which did not require excise taxes to be charged. In Q4 2023, the Company is now selling significantly more to distributors and retailers which require excise stamps to be used on the sale which has increased excise taxes significantly.

Cost of sales increased to \$3,415,344 during Q4 2023, compared to \$1,598,204 during Q4 2022. Cost of sales consists of biomass, terpenes, solvents, packaging, production labour, and an allocation of production overheads such as facility costs, product recall insurance, utilities, and depreciation of production equipment and the building.

During Q4 2023, the Company had operating expenses of \$2,468,309 and a net loss and comprehensive loss of \$1,490,366, compared to operating expenses of \$1,912,734 and net loss and comprehensive loss of \$2,631,073 during Q4 2022.

The change in operating expenses and net loss and comprehensive loss were the result of the Company's expansion during the period. The most significant changes in operating expenses and other expenses were as follows:

- Advertising and promotion increased to \$691,879 during Q4 2023, compared to \$413,487 during Q4 2022, as the Company raised awareness of its operational successes and incurred costs by the sales team as it expanded its reach to more provincial distributors. The Company also worked to build brand awareness of the Endgame and Phyto Extractions product lines by hosting events. These investments in the brand are expected to result in higher sales for future periods.
- Data program expenses increased to \$430,956 during Q4 2023, compared to \$213,846 during Q4 2022, as the Company incurred higher costs for programs that share sales data from stores across Canada to help manage the Company's product mix, pricing strategies, and production planning.
- Office expenses increased to \$297,400 during Q4 2023, compared to \$177,274 during Q4 2022 due to additional costs in relation to computer software, internet, utilities as well as equipment and vehicle rentals.
- Professional fees and consulting expenses increased to \$270,113 during Q4 2023, compared to \$116,467 during Q4 2022 due the defense relate to the ongoing class action lawsuit.
- Wages and salaries decreased to \$536,916 during Q4 2023, compared to \$792,528 during Q4 2022. This decrease is due to the Company allocating more salaries and wages to cost of sales in comparison to the prior year.

During Q4 2023, the Company included the following in other expenses:

- Interest expense increased to \$ 348,267 in Q4 2023 (Q4 2022 - \$ 153,426) due to the increase in interest rates on the mortgage as well as the increased balance of the excise taxes owed to the Canadian Revenue Agency.
- During Q4 2023, the Company recognized an impairment of intangible assets totalling \$220,800 due to the Company's inability to leverage the patient list acquired with PerceiveMD.
- During Q4 2023, the Company recognized an impairment loss of \$459,577 related to extraction equipment which was replaced due to advancements in the extraction processes. The impairment loss was based on a fair value less cost of disposal of \$nil as at December 31, 2023.

SUMMARY OF QUARTERLY RESULTS

The following table shows results from the previous eight fiscal quarters:

Quarter ended	Revenue, net of excise tax	Net loss and comprehensive loss	Weighted average number of shares	Basic and diluted (loss) income per share
	\$	\$	#	\$
December 31, 2023	5,000,152	(1,490,366)	55,970,547	(0.03)
September 30, 2023	4,350,129	(642,191)	55,970,547	(0.01)
June 30, 2023	7,100,565	(1,103,459)	55,970,547	(0.02)
March 31, 2023	5,771,799	(308,626)	55,970,547	(0.01)
December 31, 2022	4,153,016	(2,679,924)	55,970,547	(0.05)
September 30, 2022	3,803,787	(459,265)	55,970,547	(0.01)
June 30, 2022	3,051,554	(478,136)	59,081,658	(0.01)
March 31, 2022	2,286,721	(664,314)	65,970,547	(0.01)

During Q4 2023, the Company's revenue net of excise taxes increased by \$650,023 as compared to Q3 2023. The increase in net sales from the previous quarter was due to seasonality of the Company's concentrate products. The comprehensive loss increased by \$880,149 from the previous quarter mainly due to other expenses in Q4 2023 related to impairment of intangible assets expense and impairment of property and equipment.

During Q3 2023, the Company's revenue net of excise taxes decreased by \$2,750,436 as compared to Q2 2023. The decrease in net sales from the previous quarter was due to the Company focusing on increasing the efficiency of production and lowering cost of inputs. The comprehensive loss decreased by \$429,294 from the previous quarter mainly due to other expenses in Q2 2023 related to bad debt expense and impairment of inventory.

During Q2 2023, the Company's revenue net of excise taxes increased by \$1,328,766 as compared to Q1 2023. The 23% increase in net sales from the previous quarter was due to the Company continuing to focus on reducing the amount of time to fulfill the incoming purchase orders. The comprehensive loss increased by \$762,859 from the previous quarter mainly due to the bad debt expense and impairment of inventory charges which totalled \$956,871.

The Company's revenue net of excise taxes in Q1 2023 increased by \$1,618,783 as compared to Q4 2022. The 39% increase in sales from the previous quarter was due to the Company continuing to focus on reducing the amount of time of packaging and shipping products to increase the amount of inventory turnover in the Facility.

The Company's revenue in Q4 2022 increased by \$349,229 as compared to Q3 2022. The 9% increase in sales from the previous quarter was due to the Company increasing the flowthrough of shipments being delivered out of the Facility. The Company expects revenues to continue to increase in future quarters and the Company pushes to increase inventory turnover and production rates. The comprehensive loss increased \$2,220,659 from Q3 2022 due to the loss on the termination of the Phyto license agreement and the impairment of the PerceiveMD goodwill. This was offset by increased sales and gross profits as compared to Q3 2022.

The Company's net revenue and net loss and comprehensive loss in Q3 2022 were \$3,803,787 and \$459,265, respectively. The increase of revenues and movement in net loss and comprehensive loss are driven by factors noted in Results of Operations.

The Company's revenue and net loss and comprehensive loss in Q2 2022 were \$3,051,554 and \$478,136, respectively. The increase of revenues was driven by significant revenue from a range of provincial distributors which were not present in Q1 2022. The decrease in net loss was caused by the higher revenue and thus higher gross profit which more than offset any rise in operating expenses from the growth.

During Q1 2022, the increase of revenues to \$2,286,721 was driven primarily by the licensing revenue in Phyto and increased processing services of cannabis biomass for third-party licenced producers. The decrease in operating expenses was due to a reduction in share-based compensation as a significant number options and warrants were issued during Q4 2021 and share-based compensation related to these equity instruments was fully recognized during that period.

LIQUIDITY AND CAPITAL RESOURCES

Capital resource management

The Company's capital structure consists of all components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the current operations including corporate and administrative functions and to support operations. The Company obtains funding primarily through issuing common stock and through its mortgage payable. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

There were no changes in the Company's approach to capital management during the year ended December 31, 2023. The Company is not subject to externally imposed capital requirements.

Cash and working capital

As at December 31, 2023, the Company had a working capital deficit of \$6,039,153 (December 31, 2022 - \$3,665,081) and has no working capital requirements.

On July 26, 2023, the Company refinanced its mortgage on the Facility (the "**Sixth Mortgage**") which bears interest at the greater of 11.49% or the prime rate plus 4.29% per annum, calculated monthly, for one year. The interest rate will increase to 15.99% or the prime rate plus 8.79% for the remainder of the term. The Sixth Mortgage has a maturity date of November 1, 2024 and is secured by the mortgage property and building improvements. The Sixth Mortgage payable was recorded at amortized cost (principal value less \$35,000 transaction costs). At December 31, 2023, the carrying value of the Sixth Mortgage was \$3,479,054 (December 31, 2022 - \$nil).

As at December 31, 2023, the Company has total taxes payable of \$11,066,719 which relates mainly to excise taxes and GST. The Company is working with the Canada Revenue Agency ("**CRA**") to pay down the balance which will require a significant amount of funds in future periods. The Company has also applied for a reduction in the outstanding fees and accrued interest to pay off the balance faster. The balance is accruing interest at the CRA's prescribed rate.

Cash flow activity

	2023	2022
	\$	\$
Cash provided by (used in) operating activities	1,861,263	916,911
Cash provided by (used in) investing activities	(681,047)	(625,037)
Cash provided by (used in) financing activities	(815,123)	(22,548)
Net increase (decrease) in cash	365,093	269,326
Cash, beginning of period	1,013,867	744,541
Cash, end of period	1,378,960	1,013,867

Cash provided by operating activities of \$1,861,263 during the year ended December 31, 2023 was the result of operating losses as noted in Results of Operations which were more than offset by adjustments for non-cash items and working capital movements. During 2023, the cash provided by operating activities was mainly the result of excise taxes payable increasing. In the comparable period, the operating activities provided cash of \$916,911.

Cash used in investing activities of \$681,047 during the year ended December 31, 2023 (2022 - \$625,037) was the result of equipment purchases.

Cash used in financing activities of \$815,123 during the year ended December 31, 2023 (2022 - \$22,548) was the result of interest paid on the mortgage payable, payments on the lease liability, a \$35,000 mortgage renewal fee, and the repayment of \$361,578 of loans.

Commitments and contingencies

Contingencies

On March 15, 2023, the Company was served with a civil claim filed in the Supreme Court of British Columbia pursuant to the *Class Proceedings Act, R.S.B.C. 1996, c. 50* alleging that the Company's press release of February 22, 2023 misstated certain material facts which mislead the plaintiff in the claim. The suit also names the Company's subsidiary ALI and the Company's Chief Executive Officer. The Company denies the allegations in the claim and specifically that

the press release was misleading. No specific amount of damages is claimed.

Equipment purchases

The Company is committed to payments of \$5,843 pertaining to equipment purchases for the production facilities currently in the process of being manufactured or delivered by various suppliers.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements that are not disclosed above as at December 31, 2023, and as at the date of this MD&A.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel are those having the authority and responsibility for planning, directing, and controlling the Company. There were no loans to key management personnel or directors, or entities over which they have control or significant influence during the year ended December 31, 2023 and 2022.

During the year ended December 31, 2023, no options were granted to Officers and Directors (2022 - 300,000) having a fair value on grant of \$nil (2022 - \$138,713).

The following related parties transacted with the Company or Company-controlled entities during the year ended December 31, 2023 and 2022:

- (i) George Routhier was a Director. He is the owner of Pipedreemz Inc., which provides advisory services to the Company. He resigned on June 23, 2022.
- (ii) Michael Forbes was a Director and the Company's President and CEO. He was appointed on April 29, 2021 and is the owner of MDC Forbes Inc., which provides CEO services to the Company. He resigned on March 29, 2024.
- (iii) Donald Dinsmore is a former Director and former COO of the Company. He was appointed on April 29, 2021 and left the Company on March 24, 2022.
- (iv) Oliver Foeste was a former CFO of the Company until January 1, 2023. He is the Managing Partner of Invictus Accounting Group LLP which provided the Company with CFO, accounting and tax services.
- (v) Paul Morgan is a Director of the Company. He was appointed on July 14, 2021.
- (vi) Smoke Wallin was a Director of the Company. He resigned on April 12, 2024.
- (vii) Lachlan McLeod was appointed CFO of the Company on January 1, 2023, as interim CEO on April 12, 2024 and was an employee of Fehr & Associates CPA ("**F&A**"), which provided accounting services to the Company. On June 2, 2023, the Company hired Mr. McLeod as an employee and the F&A agreement was subsequently terminated.

The aggregate value of transactions with key management personnel and directors and entities over which they have control or significant influence during the year ended December 31, 2023 and 2022 were as follows:

	2023	2022
	\$	\$
Donald Dinsmore	-	102,705
Fehr & Associates CPA	129,971	-
Invictus Accounting Group LLP	-	286,539
Lachlan McLeod	89,551	-
MDC Forbes Inc.	194,250	127,350
Pipedreemz Inc.	-	2,000
Smoke Wallin	-	138,713
	413,772	657,307

As at December 31, 2023 and 2022, the Company had an outstanding accounts payable balance with related parties as follows:

	December 31, 2023	December 31, 2022
	\$	\$
Fehr & Associates CPA	24,754	-
Invictus Accounting Group LLP	12,915	13,884
MDC Forbes Inc.	115,338	62,427
Michael Forbes	-	20,000
Pipedreemz Inc.	-	3,350
	153,007	99,661

All related party balances are unsecured and are due within thirty days without interest and incurred in the normal course of business.

The transactions with the key management personnel and directors are included in operating expenses as follows:

(a) Consulting fees and professional fees

Included CEO services by Michael Forbes, charged to the Company via MDC Forbes Inc., accounting services of the Company's former CFO, Oliver Foeste, charged to the Company via Invictus Accounting Group LLP, and accounting services of the Company's CFO, Lachlan McLeod, charged to the Company via F&A. During the year ended December 31, 2023, the Company incurred a placement fee of \$52,500 to employ Lachlan McLeod directly and terminate the F&A agreement.

(b) Wages and salaries

Included services provided by Lachlan McLeod as CFO and Donald Dinsmore as former COO.

(c) Office expenses

Included rent of \$36,750 paid to MDC Forbes Inc. for the PerceiveMD operations.

PROPOSED TRANSACTIONS

As at December 31, 2023, the Company had no proposed transactions.

CHANGES IN ACCOUNTING STANDARDS

Accounting standards issued but not yet effective

Certain pronouncements 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 many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

Amendments to IAS 1 - Presentation of Financial Statements

In October 2022, the IASB issued amendments to IAS 1, Presentation of Financial Statements titled Non-current liabilities with covenants. These amendments sought to improve the information that an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within 12 months after the reporting period. These amendments to IAS 1 override but incorporate the previous amendments, Classification of liabilities as current or non-current, issued in January 2020, which clarified that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities should be classified as non-current if a company has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendments are effective January 1, 2024, with early adoption permitted. Retrospective application is required on adoption. We do not expect these amendments to have a material effect on our financial statements.

FINANCIAL RISK MANAGEMENT

Financial instruments - fair value

The Company's financial instruments consist of cash, trade receivables, deposits, accounts payable, mortgage payable, and government loan, all of which are classified as and measured at amortized cost.

As at December 31, 2023, the carrying values of cash, trade receivables, deposits and accounts payable approximate their fair value because of the short-term nature of these instruments.

Financial instruments - risk

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and interest rate risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations.

The Company is exposed to credit risk through its cash balances held in financial institutions and trade receivables. The maximum exposure to credit risk is equal to the carrying value of such financial assets.

The aging of the Company's accounts receivable as at December 31, 2023 was as follows:

	December 31, 2023	December 31, 2022
	\$	\$
Current	3,206,312	2,342,864
1 – 30 days	224,585	566,453
31- 60 days	183,676	182,463
61 – 90 days	-	153,430
Over 90 days	484,091	316,555
Total accounts receivable	4,098,664	3,561,765
Provision for expected credit losses	(188,619)	-
Balance, December 31, 2023	3,910,045	3,561,765

Accounts receivable for cannabis sales are paid by most provinces in less than 60 days from receipt of goods.

The objective of managing credit risk is to minimize potential losses on financial assets. The Company assesses the quality of its counterparties, taking into account their credit worthiness and reputation, past performance and other factors. The Company has recognized a provision for expected credit losses on its trade receivables. At December 31, 2023, 74% (2022 – 87%) of the Company's amounts receivable is held with provincial governments with low credit risk.

Cash is only deposited with or held by institutions of high credit worthiness.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages its liquidity risk by reviewing on an ongoing basis its cash position and if required raises funding through additional share capital issuances or debt financing. A summary of undiscounted liabilities and future operating commitments as at December 31, 2023, are as follows:

	Total	Within 1 year	1 – 3 years	3 – 5 years
Maturity analysis of financial liabilities	\$	\$	\$	\$
Accounts payable and accrued liabilities	13,421,342	13,421,342	-	-
Lease liability	104,803	30,197	60,394	14,212
Mortgage payable	3,874,500	3,874,500	-	-
Government loan	69,458	-	69,458	-
	17,470,103	17,326,039	129,852	14,212

As at December 31, 2023, the Company had a cash balance of \$1,378,960 and current liabilities of \$16,917,110 (December 31, 2022 - \$1,013,867 and \$12,660,207 respectively).

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's mortgage payable and lease liabilities carry fixed interest rates and as such, the Company is not exposed to interest rate risk.

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. The Company had the following breakdown of customers with greater than 10% of overall revenue.

	2023	2022
Customer A	37%	12%
Customer B	28%	14%
Customer C	18%	30%
Customer D	7%	29%

OUTSTANDING SHARE DATA

The Company's authorized share capital consists of an unlimited number of voting common shares without par value. The Company had the following securities outstanding as at December 31, 2023 and the date of this MD&A:

	December 31, 2023	Date of this MD&A
	#	#
Common shares	55,970,547	55,970,547
Stock options	2,870,000	2,870,000
Warrants	-	-
Fully diluted securities	58,840,547	58,840,547

RISKS AND UNCERTAINTIES

The Company operates in a rapidly changing environment that involves risks and uncertainties and as a result, management's expectation may not be realized for a number of reasons. An investment in the Company's common shares is speculative and involves a high degree of risk and uncertainty. The current regulatory uncertainty poses additional risks and uncertainties which may materially affect management's expectations.

Regulatory risks

The industry in which the Company operates requires compliance with federal, provincial, and local laws and regulations, which could include, among others, laws and regulations relating to cannabis, controlled substances, personally identifiable information, wage and hour restrictions, health and safety matters, consumer protection and environmental matters. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and regulatory bodies and obtaining all regulatory approvals, where necessary, for the delivery of its services and the services delivered by those regulated professionals within its network. The Company cannot predict the time required to secure all appropriate regulatory approvals for such services. Compliance with such laws and regulations may be costly and a failure to comply with such laws and regulations could result in fines, penalties, litigation and other liability that could materially adversely affect the Company.

Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to conduct its business, including the development of new or existing markets and products. The Company has little or no control over potential

changes to laws or regulations that may affect its business. Changes in applicable laws and regulations are unpredictable and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Additionally, governmental regulations affect taxes and levies, healthcare costs, energy usage and labor issues, all of which may have a direct or indirect effect on the Company's business and its clients or suppliers. Changes in these laws or regulations, or the introduction of new laws or regulations, could increase the costs of doing business for the Company, or its customers or suppliers, or restrict the Company's actions, causing the Company to be materially adversely affected.

Laws, regulations and guidelines relating to controlled substances

The Company is not currently undertaking any activities involving controlled substances, nor does it intend to undertake any activities regarding controlled substances at this time. However, as a holder of a Controlled Substance Dealer's Licence issued by Health Canada, the Company is subject to regulatory and statutory obligations relating to controlled substances. The CDSA is Canada's federal drug control statute. Controlled substances are categorized into eight Schedules based upon their perceived danger. Schedule 1 substances, including cocaine and coca leaves, are deemed to have the highest potential for abuse and carry the most severe penalties for violations – the severity of the penalties decreases for subsequent scheduled substances. Most psychedelics are Schedule 3 substances, including psilocybin. The CDSA generally prohibits all uses of controlled substances unless an exemption is granted under Section 56 of the CDSA or the regulations allow otherwise, including through a clinical trial. The Canadian Minister of Health can grant exemptions under Section 56 of the CDSA to use controlled substances if it is deemed to be necessary for a medical or scientific purpose or is otherwise in the public interest.

Despite the general prohibition on controlled substances, the *Food and Drug Regulations* and *Narcotics Control Regulations* allows authorized persons to obtain a dealer's licence to possess, produce, sell, import/export, and transport certain controlled substances. These regulations contain strict requirements as to the handling of controlled substances, including where the controlled substance is stored and processed, who has access to the controlled substance, who may purchase or receive the controlled substance, and the types of activities that may be performed using the controlled substance. These regulations provide a framework for expanding and monitoring the legal use of controlled substances in Canada as well as, importantly, issuing licences to dealers such as the Company's Dealer's Licence. However, amendments to current laws and regulations governing the importation, distribution, transportation and/or production of controlled substances, or more stringent implementation thereof could have a substantial adverse impact on the Company. Local, provincial, and federal laws and enforcement policies concerning controlled substances are changing rapidly and will continue to do so for the foreseeable future.

Should the Company choose to engage in permitted activities as authorized by its Dealer's Licence at a later date, the Company's operations will be required to be conducted in strict compliance with the laws and regulations regarding its activities with controlled substances. The Company does not have any direct or indirect involvement with the illegal selling, production or distribution of any substances in the jurisdictions in which it operates and does not intend to have any such involvement at this time. However, a violation of any applicable laws and regulations, such as the CDSA, could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings initiated by the government entities in the jurisdictions in which the Company operates, private citizens or criminal charges. Any such violations could have a material adverse effect on the business, results of operations and financial condition of the Company.

Reliance on licences

The Company's ability to produce and sell cannabis products in Canada is dependent on maintaining its licences with Health Canada. All of the Company's licences are, or will be, subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of the licences, to maintain its licences, and to renew the licences after their expiry dates would have a material adverse impact on the business, financial condition and operating results of the Company.

If the Company opts to pursue commercialization strategies involving the permitted activities pursuant to its Dealer's Licence, the Company's ability to engage in such permitted activities will depend on maintaining its Dealer's Licence with Health Canada. Failure to comply with the requirements of the licence, to maintain its licence, and to renew the licence after its expiry date may have a material adverse impact on the business, financial condition and operating results of the Company.

Should Health Canada not extend or renew existing licences, renew existing licences on different terms, or refuse applications for new licences, the business, financial condition and operating results of the Company would be

materially adversely affected.

Fluctuating Prices of Raw Materials

The Company's revenues are largely derived from the production, sale and distribution of agricultural products or products related to the growth of such agricultural products. The price of production, sale and distribution of these products will fluctuate widely and is affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new production and distribution developments and improved production and distribution methods. The effect of these factors on the price of the Company's products and, therefore, the economic viability of any of the Company's business, cannot accurately be predicted.

In addition, the current economic environment may result in significant inflationary pressures for the price of the Company's inputs and labour, which could have a material effect on the Company's business, financial condition or results of operations. The Company may not be able to fully offset such higher costs through price increases. The Company's inability or failure to do so could harm its business, financial condition and results of operations.

Industry volatility

The cannabis industry and businesses ancillary to and directly involved with cannabis businesses are undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability.

Although the Company currently has no intention of pursuing any activities under its Dealer's License, should the Company choose to engage in permitted activities as authorized by its Dealer's Licence in the future, the Company may face challenges related to the relatively new and rapidly evolving commercial environment relating to controlled substances, including managing a complex and highly regulated supply chain, developing and scaling operations, attracting and retaining talent necessary to perform the permitted activities under the conditions imposed by the Dealer's Licence and other regulatory restrictions, and the public perception of controlled substances. Since the industry for controlled substances is still in a very early stage in Canada, there are significant risks that any expenditures in developing a business that relies in part on commercialization of its Dealer's Licence will not result in profitable operations.

Ongoing need for financing

The Company's ability to continue operations will be largely reliant on its continued attractiveness to equity investors. The Company is expected to incur operating losses as it continues to expend funds to develop its business operations. Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require substantial additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the going out of business. The primary source of funding available to the Company will consist of equity financing. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

Ongoing costs and obligations

The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the common shares may significantly decrease.

Competition

The cannabis production industry is competitive in all of its phases. The Company will face strong competition from other companies in connection with such matters. Many of these companies have greater financial resources, operational experience and technical capabilities than Adastra. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable or at all. Consequently, the revenues, operations and financial condition of the Company could be materially adversely affected. Because of the early stage of the industry in which the Company operates, the Company may face additional competition from new entrants. If the number of users of cannabis products in Canada increases, the demand for products will increase and management expects that competition will become more intense as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations.

Proprietary and intellectual property rights

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- Patents in the cannabis industry involve complex legal and scientific questions, and patent protection may not be available for some or any products; the Company's applications for trademarks and copyrights relating to its business may not be granted, and, if granted, may be challenged or invalidated;
- Issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages; the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any of its products or intellectual property;
- The Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with or superior to those the Company develops;
- Another party may assert a blocking patent and the Company would need to either obtain a licence or design around the patent in order to continue to offer the contested feature or service in its products; or
- The expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product, and regulatory approval requirements, but the impact could be material and adverse

Key personnel

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the market. The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's CEO, CFO and technical experts. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business, and could limit the Company's ability to develop and market its products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

Product liability

As a processor and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. Previously unknown adverse reactions resulting from human consumption of cannabis or other products alone or in combination with other medications or substances could occur. As a processor and distributor and of such

products or in its role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of adult-use of such products, the Company may be subject to various product liability claims, including, among others, that the product caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company. There can be no assurances that the Company will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Reputational risk and negative public opinion

Damage to the Company's reputation can result from the actual or perceived occurrence of any number of events, including any negative publicity, whether true or not. As a distributor of cannabis, which was previously a controlled substance in Canada, and as a holder of a Dealer's Licence permitting certain activities relating to substances currently classified as controlled substances, there is a risk that the Company's business may attract negative publicity due to association of such products or substances with violence and criminal activities. There is also a risk that the actions of other licence holders, permitted retailers or other companies and service providers in the cannabis industry or entities authorized to deal with controlled substances, including those in the cannabis industry with whom the Company has or will enter into agreements with, may negatively affect the reputation of the industry as a whole and thereby negatively impact the Company's reputation.

The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share negative opinions and views in regard to the Company's activities and the industry in general, whether true or not. The Company does not ultimately have direct control over how the Company, the cannabis industry, or the controlled substance licensing regime is perceived by others. Reputational issues may result in decreased investor confidence, increased challenges in developing and maintaining community relations and present an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, which could have a material adverse effect on the Company's business, financial condition or results of operations.

Litigation

The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations and financial condition. The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities, which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.