



Adastra Holdings Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2024 and 2023

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 the years ended December 31, 2024 and 2023. 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 for the years ended December 31, 2024 and 2023 ("**Financial Statements**") 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 28, 2025.

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 28, 2025.

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, 2024 included the expansion and increased efficiency of its operations at the Facility.

The Company had gross revenue of \$44,855,983 for the year ended December 31, 2024 compared to \$37,666,838 for the year ended December 31, 2023. This represents a 19% increase in gross revenues from the comparable period.

Excise taxes of \$20,012,602 were incurred during the year ended December 31, 2024 compared to \$15,444,193 in the comparable period. The increase in excise taxes is primarily due to the Company selling more products subject to excise tax directly to retailers and wholesalers. As at December 31, 2024, the Company is in arrears on payments of excise taxes which will consume significant cash flows in future periods. The Company is working with the Canada Revenue Agency ("**CRA**") to pay back these excise taxes in arrears over an extended period.

The Company achieved a gross profit of \$8,778,214 for the year ended December 31, 2024 compared to \$7,566,833 in the comparable period, achieving gross profit growth of 16%. This was mainly achieved by increasing total sales revenue during the period. In addition, the cost of goods sold in the comparable period included \$482,103 of inventory impairments.

Operating expenses increased from \$9,360,592 in the year ended December 31, 2023 to \$9,749,916 during the year ended December 31, 2024. This represents an increase in operating expenses of 4.2% from the comparable period. Refer to the **Selected Quarterly Information** section below for further detail.

For the year ended December 31, 2024, the Company had a net loss and comprehensive loss of \$13,235,414 (2023 - \$3,544,642). During the year ended December 31, 2024, the net loss and comprehensive loss included a \$755,297 (2023 - \$188,619) one-time charge to a provision for expected credit losses and an impairment to the Phyto BrandCo goodwill for \$9,436,189 (2023 - \$nil). In addition, the Company impaired Phyto trademark intangible assets for \$2,180,208 due to the Company's inability to leverage the Phyto brand or its trademarks.

The Company had cash of \$1,296,727 at December 31, 2024 compared to \$1,378,960 as at December 31, 2023. The Company continues to closely monitor and manage its cash.

Working capital deficit as at December 31, 2024 was \$4,049,734 compared to \$6,039,153 as at December 31, 2023. On October 29, 2024, the Company renewed the \$3,500,000 mortgage which bears interest at the greater of 11.25% or the prime rate plus 5.3% per annum, calculated monthly, for one year. The interest rate increases to the greater of 17.99% or the prime rate plus 12.04% for an additional 3 months. The mortgage has a maturity date of February 1, 2026 and is secured by the property and building improvements.

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 Adastras' 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.

On May 1, 2024, the Company voluntarily filed a Form 15F with the United States Securities and Exchange Commission ("SEC") to terminate its SEC reporting obligations and the registration of its common shares under Section 12(g) of the Securities Exchange Act of 1934, as amended. The Company determined that the costs associated with the registration exceeded the benefits.

On October 9, 2024, the Company announced a share consolidation at a ratio of one post-consolidation common share for every ten pre-consolidation common shares ("**Consolidation**"), effective October 3, 2024. The Consolidation reduced the number of issued and outstanding shares from 55,970,547 common shares to 5,597,050 common shares. No fractional common shares were issued pursuant to the Consolidation.

On November 6, 2024, the Company announced that it had entered into a Share Purchase Agreement ("**Agreement**") between Adastras Labs Inc. ("**Vendor**"), a wholly-owned subsidiary of the Company, and Majik Psilocybin Ventures Inc. ("**Purchaser**") effective November 5, 2024. Pursuant to the Agreement, the Vendor sold all outstanding shares of 1225140 ("**PerceiveMD**") to the Purchaser for a nominal amount (the "**PerceiveMD Transaction**"). The PerceiveMD Transaction aligns with the Company's strategy of focusing on its core business areas and emerging market opportunities.

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 (the "**Board**"). Mr. Hale is the founding CEO of Adastras 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 Board. 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 and Lachlan McLeod was appointed as Interim CEO of the Company, in addition to his duties as CFO and Corporate Secretary.

On September 26, 2024, the Company announced the resignation of Lachlan McLeod as the Interim CEO, CFO and Corporate Secretary of the Company. The Company is currently in the process of selecting and approving new candidates to fill these roles.

Effective February 14, 2025, Andrew Hale resigned as a director of the Company.

Effective February 28, 2025, Mark Qvist was appointed as a member of the Board. Mr. Qvist has over 25 years of experience in the geotechnical, environmental and botanical sectors. Mr. Qvist currently serves as the Chief Executive Officer of Life Cycle Botanics Ltd. ("Life Cycle Botanics"), a premier nursery and provider of high-quality plant genetics to licensed producers across Canada he founded in 2019. Prior to founding Life Cycle Botanics, Mr. Qvist co-owned On Track Drilling Inc. ("**On Track Drilling**"), a geotechnical and environmental drilling company, where he led On Track Drilling's growth and advancement by enhancing specialized drilling operations, strengthening regulatory compliance, and driving strategic business development.

Licences

On March 13, 2020, the Company, through its wholly-owned subsidiary, Adastra Labs Inc. ("**ALI**"), received a Standard Processing licence for the Facility 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, permitting 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**"), permitting 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**"), allowing 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 licensed 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 Act 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 Canada on January 26, 2021 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 	April 16, 2026

		<ul style="list-style-type: none"> • 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 destruction • Room 121 is a restricted room at the Facility • Access to room 121 is restricted to the following individuals: designated personnel for this licence, as per the most recent list 	<p>July 31, 2026</p>

		of approved personnel issued by Health Canada; or employees conducting activities under this licence and under the supervision of designated personnel for this licence <ul style="list-style-type: none"> • 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, 2024 (Audited) \$	Year ended December 31, 2023 (Audited) \$	Year ended December 31, 2022 (Audited) \$
Revenue	44,855,983	37,666,838	18,131,826
Excise taxes	(20,012,602)	(15,444,193)	(4,836,748)
Net loss	(13,235,414)	(3,544,642)	(4,281,639)
Loss per share (basic and diluted) ⁽¹⁾	(2.36)	(0.69)	(0.76)
Cash provided by operating activities	826,231	1,861,263	1,319,111

Consolidated Statements of Financial Position	At December 31, 2024 (Audited) \$	At December 31, 2023 (Audited) \$	At December 31, 2022 (Audited) \$
Assets			
Current assets	10,303,847	10,877,957	8,995,126
Non-current assets	9,038,397	21,464,814	22,808,819
Total assets	19,342,244	32,342,771	31,803,945
Liabilities			
Current liabilities	14,353,581	16,917,110	12,660,207
Non-current liabilities	3,538,929	740,513	913,948
Total liabilities	17,892,510	17,657,623	13,574,155
Total shareholders' equity	1,449,734	14,685,148	18,229,790
Total liabilities and shareholders' equity	19,342,244	32,342,771	31,803,945

⁽¹⁾ Effective October 3, 2024, the Company completed the Consolidation and as a result, all shares and options, warrants, EPS, have been restated to reflect the Consolidation.

Over the prior three years, the Company has continued to grow total revenue. During 2024, the Company increased revenue by 19% from 2023. During 2023, the Company increased sales by 108% from the prior year. Sales of the Company's Endgame brand have continued to gained traction in the market. During 2024, the Company was focused on increasing sales and the throughput of the Facility. The Company expects the trend of increasing sales to continue into 2025, but at a slower rate. This is partially due to the Company's reduced advertising spending in 2024 as compared to the previous years. The Company expects to maintain similar levels of operational expenses into 2025.

The loss from operations decreased from \$1,793,759 in 2023 to \$971,702 in 2024, or 46%. During the year ended December 31, 2024, the Company recorded a goodwill impairment of \$9,436,189 due to the Company's inability to realize the synergies of the Phyto BrandCo acquisition. In addition, the Company impaired the Phyto Brand intangible assets for \$2,180,208 due to the Company's decreasing Phyto sales.

SELECTED QUARTERLY INFORMATION

Discussion of Operations for the three months ended December 31, 2024 ("Q4 2024") compared to the three months ended December 31, 2023 ("Q4 2023"):

Revenues increased to \$9,518,253 during Q4 2024, compared to \$9,124,611 during Q4 2023, increasing 4% from the comparable period. The increased growth rate of sales is attributed to the Company increasing throughput of the Facility from the prior year.

Excise taxes of \$4,780,691 are included in total sales in Q4 2024 compared to \$4,124,459 in Q4 2023. In the comparable period, the Company had more sales which did not require excise taxes to be charged. In Q4 2024, the Company is now selling more to distributors and retailers which require excise stamps to be used on the sale which has increased excise taxes significantly.

Cost of sales decreased to \$3,149,850 during Q4 2024, compared to \$3,415,344 during Q4 2023. 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.

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 expenses decreased to \$191,788 during Q4 2024, compared to \$691,879 during Q4 2023, as the Company heavily promoted the Endgame brand in Q3 2023.
- Data program expenses increased to \$725,634 during Q4 2024, compared to \$430,956 during Q4 2023, 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 decreased to \$255,346 during Q4 2024, compared to \$297,400 during Q4 2023 due to cost reduction strategies on administrative costs.
- Professional fees and consulting expenses increased to \$549,789 during Q4 2024, compared to \$270,113 during Q4 2023 due to the legal fees associated with the PerceiveMD Transaction as well as the hiring of consultants to assist with operations.
- Wages and salaries decreased to \$516,598 during Q4 2024, compared to \$536,916 during Q4 2023. This decrease is due to the Company transition to use external consultants for certain roles. This was offset by an increase in wages for certain key positions.

The Company included the following in other expenses:

- Interest expense increased to \$389,232 in Q4 2024 (Q4 2023 - \$348,267) 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 2024, the Company had a gain on the sale of PerceiveMD of \$139,920. No comparable transaction occurred in the prior year.
- During Q4 2024, the Company recorded an impairment of goodwill of \$9,436,189 due to the Company's inability to realize the synergies related to the Phyto BrandCo acquisition.
- During Q4 2024, the Company recorded an impairment related to the Phyto brand intangible assets for \$2,180,208. In Q4 2023, the Company had recorded an impairment related to the Patient List for \$220,800.

Discussion of Operations for the year ended December 31, 2024 ("2024") compared to the year ended December 31, 2023 ("2023"):

Revenues increased to \$44,855,983 during 2024, compared to \$37,666,838 during 2023, increasing 19% from the comparable period. The increased growth rate of sales is attributed to the Company increasing throughput of the Facility from the prior year.

Excise taxes of \$20,012,602 are included in net revenues in 2024 compared to \$15,444,193 in 2023. In the comparable period, the Company had more sales which did not require excise taxes to be charged. In 2024, the Company is now selling 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 \$16,065,167 during 2024, compared to \$14,655,812 during 2023. 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. The prior year cost of sales included a one-time impairment charge on inventory for \$482,103 due to expired stock.

During 2024, the Company had operating expenses of \$9,749,916 and a net loss and comprehensive loss of \$13,235,414, compared to operating expenses of \$9,360,592 and net loss and comprehensive loss of \$3,544,642.

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 expenses decreased to \$891,876 during 2024, compared to \$2,636,391 during 2023, as the Company heavily promoted the Endgame brand in 2023.
- Data program expenses increased to \$2,474,821 during 2024, compared to \$1,438,277 during 2023, 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 decreased to \$1,029,384 during 2024, compared to \$1,134,991 during 2023 due to cost cutting initiatives.
- Professional fees and consulting expenses increased to \$1,341,502 during 2024, compared to \$1,054,649 during 2023 due to the legal fees associated with the PerceiveMD Transaction as well as the hiring of consultants to assist with operations.
- During 2024 the Company had an additional charge to the provision for expected credit losses of \$755,297, compared to a charge of \$188,619 during 2023. The one-time charge to the provision for expected credit losses is due to a significant customer of the Company having liquidity issues. The Company has made a provision for the entire outstanding balance from the customer.
- Wages and salaries increased to \$2,433,947 during 2024, compared to \$2,015,951 during 2023. This increase is due to the Company hiring additional administrative staff to support the increased sales. Also, the Company has increased wages for certain key positions. The increase is partially offset by the hiring of consultants to fill certain positions at the Company.

The Company included the following in other expenses:

- Interest expense increased to \$1,396,778 in 2024 (2023 - \$1,040,193) 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 2024, the Company had a gain on the sale of PerceivedMD of \$139,920. No comparable transaction occurred in the prior year.
- During 2024, the Company recorded an impairment of goodwill of \$9,436,189 due to the Company's inability to realize the synergies related to the Phyto BrandCo acquisition.
- During 2024, the Company recorded an impairment related to the Phyto brand intangible assets for \$2,180,208. In 2023, the Company had recorded an impairment related to the Patient List for \$220,800.

SUMMARY OF QUARTERLY RESULTS

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

Quarter ended	Revenue, net of excise tax	Net income (loss) and comprehensive income (loss)	Weighted average number of shares	Basic and diluted (loss) income per share
	\$	\$	#	\$
December 31, 2024	4,341,126	(12,090,470)	5,597,050	(2.16)
September 30, 2024	7,103,576	84,450	5,597,050	0.02
June 30, 2024	6,870,289	80,851	5,597,050	0.01
March 31, 2024	6,528,390	(1,310,245)	5,597,050	(0.23)
December 31, 2023	5,000,152	(1,490,366)	5,597,050	(0.27)
September 30, 2023	4,350,129	(642,191)	5,597,050	(0.11)
June 30, 2023	7,100,565	(1,103,459)	5,597,050	(0.20)
March 31, 2023	5,771,799	(308,626)	5,597,050	(0.06)

During Q4, 2024, the Company's revenue net of excise taxes decreased by \$2,762,450 as compared to Q3 2024. The decrease in net sales from the previous quarter was due to a decrease in spending on marketing and advertising. The comprehensive loss increased by \$12,174,920 from the prior quarter mainly due to an impairment of goodwill totalling \$9,436,189, the impairment of intangible assets totalling \$2,180,208, and the charge to provision of expected credit losses of \$755,297.

During Q3 2024, the Company's revenue net of excise taxes increased by \$233,287 as compared to Q2 2024. The increase in net sales from the previous quarter was due to the continued increased throughput of the Facility. The comprehensive income was consistent with the prior quarter.

During Q2 2024, the Company's revenue net of excise taxes increased by \$341,899 as compared to Q1 2024. The increase in net sales from the previous quarter was due to seasonality of the Company's concentrate products and packaged flower. The comprehensive loss decreased by \$1,391,096 from the previous quarter mainly due to the \$791,617 decrease in the provision for expected credit losses.

During Q1 2024, the Company's revenue net of excise taxes increased by \$1,528,238 as compared to Q4 2023. The increase in net sales from the previous quarter was due to seasonality of the Company's concentrate products. The comprehensive loss decreased by \$180,121 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 Q1 2024, the Company had a one-time charge against the provision of expected credit losses of \$791,617.

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 \$848,175 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 \$461,268 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 \$794,833 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.

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, 2024. The Company is not subject to externally imposed capital requirements.

Cash and working capital

As at December 31, 2024, the Company had a working capital deficiency of \$4,049,734 (2023 - \$6,039,153) and has no working capital requirements.

On October 29, 2024, the Company renewed the \$3,500,000 mortgage which bears interest at the greater of 11.25% or the prime rate plus 5.3% per annum, calculated monthly, for one year. The interest rate increases to the greater of 17.99% or the prime rate plus 12.04% for an additional 3 months. The mortgage has a maturity date of February 1, 2026 and is secured by the property and building improvements.

As at December 31, 2024, the Company has total taxes payable of \$11,451,306 (2023 - \$10,936,073) which relates mainly to excise taxes and GST. The Company is working with the 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

The following is the cash flow activities for the years ended December 31, 2024 and 2023:

Year ended December 31,	2024	2023
	\$	\$
Cash provided by operating activities	826,231	1,861,263
Cash used in investing activities	(416,175)	(681,047)
Cash used in financing activities	(492,289)	(815,123)
Net increase (decrease) in cash	(82,233)	365,093
Cash, beginning of year	1,378,960	1,013,867
Cash, end of year	1,296,727	1,378,960

Cash provided by operating activities of \$826,231 during the year ended December 31, 2024 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. In the comparable period, the operating activities provided cash of \$1,861,263.

Cash used in investing activities of \$416,175 during the year ended December 31, 2024 (2023 - \$681,047) was the result of furniture and equipment purchases.

Cash used in financing activities of \$492,289 during the year ended December 31, 2024 (2023 - \$815,123) was the result of interest paid on the mortgage payable and payments on the lease liability.

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 former 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. At December 31, 2024, there have been no changes to the amounts claimed.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements that are not disclosed above as at December 31, 2024, and as at the date of this MD&A.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel are those who have 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, 2024 and 2023.

The following related parties transacted with the Company or Company-controlled entities during the year ended December 31, 2024 and 2023:

- (i) 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, which provides CEO services to the Company. He resigned on March 29, 2024.
- (ii) Paul Morgan is a Director of the Company. He was appointed on July 14, 2021.
- (iii) Smoke Wallin is a former Director of the Company that was appointed on May 16, 2022. He resigned on April 12, 2024.
- (iv) Lachlan McLeod was appointed CFO of the Company on January 1, 2023 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. Lachlan resigned as CFO and Corporate Secretary on September 25, 2024.

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, 2024 and 2023 were as follows:

	2024	2023
	\$	\$
Fehr & Associates CPA	-	129,971
Lachlan McLeod	161,016	89,551
MDC Forbes Inc.	79,540	194,250
Paul Morgan	16,233	-
Smoke Wallin	12,000	-
	268,789	413,772

As at December 31, 2024 and 2023, the Company had an outstanding accounts payable balance with related parties as follows:

	December 31, 2024	December 31, 2023
	\$	\$
Fehr & Associates CPA	-	24,754
Invictus Accounting Group LLP	-	12,915
MDC Forbes Inc.	-	115,338
	-	153,007

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., and accounting services of the Company's CFO, Lachlan McLeod.

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

During the year ended December 31, 2024, total wages and salaries paid to key management totaled \$121,396 (2023 - \$89,551) and incurred directors fees of \$44,466 (2023 - \$nil).

(c) Office expenses

During the year ended December 31, 2024, the Company included rent recover of \$9,498 (2023 – rent expense of \$36,750) related to MDC Forbes Inc. for the PerceiveMD operations.

PROPOSED TRANSACTIONS

As at December 31, 2024, 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, 2025. 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.

FINANCIAL RISK MANAGEMENT

Financial instruments - fair value

The Company's financial instruments consist of cash, accounts receivables, deposits, accounts payable and accrued liabilities, mortgage payable, and government loan, all of which are classified as and measured at amortized cost. As at December 31, 2024, the carrying values of cash, accounts receivables, deposits and accounts payable and accrued liabilities, mortgage payable, and government loan approximate their fair value because of the short-term nature of these instruments.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers between fair value levels during the year.

Financial instruments - risk

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board mitigates these risks by assessing, monitoring, and approving the Company's risk management processes.

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, 2024 was as follows:

	December 31, 2024	December 31, 2023
	\$	\$
Current	2,796,204	3,206,312
1 – 30 days	59,519	224,585
31- 60 days	-	183,676
61 – 90 days	-	-
Over 90 days	1,007,273	484,091
Total accounts receivable	3,862,996	4,098,664
Provision for expected credit losses	(943,916)	(188,619)
	2,919,080	3,910,045

The Company had the following changes related to the expected credit loss provision:

	December 31, 2024	December 31, 2023
	\$	\$
Opening balance	188,619	-
Additions to ECL	755,297	188,619
Expected credit loss provision	943,916	188,619

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, 2024, 89% (2023 – 74%) of the Company's amounts receivable, net of expected credit losses, are held with provincial governments with low credit risk.

The Company had the following breakdown of customers with greater than 10% of overall accounts receivable:

	2024	2023
Customer A	41%	36%
Customer B	23%	16%
Customer C	14%	13%
Customer D	9%	18%

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, 2024, are as follows:

	Total	Within 1 year	1 – 3 years	3 – 5 years
Maturity analysis of financial liabilities	\$	\$	\$	\$
Accounts payable and accrued liabilities	14,271,549	14,271,549	-	-
Lease liability	109,895	30,197	79,698	-
Mortgage payable	3,985,538	433,067	3,552,471	-
Government loan	63,000	63,000	-	-
	18,429,982	14,797,813	3,632,169	-

As at December 31, 2024, the Company had a cash balance of \$1,296,727 and current liabilities of \$14,353,581 (2023 - \$1,378,960 and \$16,917,110 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.

	2024	2023
Customer A	41%	37%
Customer B	30%	28%
Customer C	17%	18%

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, 2024 and the date of this MD&A:

	December 31, 2024	Date of this MD&A
	#	#
Common shares	5,597,050	5,597,050
Stock options ⁽¹⁾	223,000	88,166
Fully diluted securities	5,820,050	5,685,216

(1) Subsequent to December 31, 2024, 133,334 stock options expired unexercised

(2) Subsequent to December 31, 2024, 1,500 stock options expired unexercised.

On October 3, 2024, the Company completed the Consolidation. The Consolidation reduced the number of issued and outstanding shares from 55,970,547 common shares to 5,597,050 common shares. No fractional common shares were issued pursuant to the Consolidation.

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 Licence, 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.