Adastra Holdings Ltd.
(formerly Phyto Extractions Inc.)

MANAGEMENT DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2021, and 2020

The following management discussion and analysis ("MD&A") of the financial condition and results of operations of Adastra Holdings Ltd., (formerly Phyto Extractions Inc.) constitutes management's review of the factors that affected the Company's financial and operating performance for the three and nine months ended September 30, 2021 and 2020. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligation. This MD&A should be read in conjunction with Adastra's audited financial statements and related notes for the year ended December 31, 2020 and period ended December 31, 2019, 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 International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The first, second, third and fourth quarters of the Company's fiscal years are referred to as "Q1", "Q2", "Q3" and "Q4", respectively. Periods for the nine months ended September 30, 2021 and 2020 are referred to as "YTD 2021" and "YTD 2020", respectively.

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.adastralabs.ca. This MD&A has been prepared effective as of November 29, 2021.

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. 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". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. The Company provides 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.

DESCRIPTION OF THE BUSINESS

Adastra Holdings Ltd. (formerly Phyto Extractions Inc.) (the "Company") was incorporated under the laws of the province of British Columbia on October 14, 1987. The Company is an extraction and processing solutions company. The Company's mission is to develop and deploy large-scale cannabis and hemp extraction technologies and provide turn-key processing solutions to help licensed standard and micro-cultivators maximize the value of every harvest. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "XTRX". The Company's registered and records office is 5451 275th Street, Langley City, British Columbia, V4W 3X8.

On October 19, 2019, Health Canada issued an Analytical testing license on the Company's facility to Chemia Analytics Inc., ("Chemia"). Chemia is a wholly owned subsidiary of the Company. On March 13, 2020, Health Canada issued a Standard Processing License to the Company's facility to Adastra Labs Inc., ("Labs"). Labs is a wholly owned subsidiary of the Company.

On December 20, 2019, Arrowstar Resources Ltd. ("Arrowstar") acquired all of the issued and outstanding common shares of Adastra Labs Holdings Ltd. ("Adastra"), a private British Columbia cannabis extraction and processing solutions company incorporated on June 18, 2018. The acquisition was completed by entering into a share exchange agreement whereby the parties completed a business combination by way of a transaction that constituted a reverse takeover ("RTO") of the Company by Adastra (the "Transaction").

The Transaction was accounted for as an RTO of Arrowstar by Adastra for accounting purposes, with Adastra being identified as the accounting acquirer, and accordingly, these financial statements are a continuation of Adastra. The net assets of Arrowstar at the date of the RTO are deemed to have been acquired by Adastra. This MD&A includes the results of operations of Arrowstar since December 20, 2019. At the time of the transaction the Company changed its financial year end from April 30 to December 31.

On April 9, 2021, the Company consolidated its issued share capital on a ratio of three (3) old common shares for every one (1) new post-consolidated common share. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this Share Consolidation.

On August 10, 2021, the Company completed the acquisition, indirectly through its wholly-owned subsidiary Adastra Labs Inc., of all of the issued and outstanding shares of 1225140 B.C. Ltd., doing business as PerceiveMD ("PerceiveMD") from the shareholders of PerceiveMD, pursuant to the terms of a share purchase agreement dated August 10, 2021. In consideration for the acquisition of PerceiveMD, the Company paid to the vendors an aggregate purchase price of $2,020,976 consisting of $10,000 in cash and $2,010,976 by way of the issuance of 2,513,720 common shares in the capital of the Company.

On September 1, 2021, the Company changed its name to Adastra Holdings Ltd. (formerly Phyto Extractions Inc.). Trading of the Company's common shares resumed under the new name and under the same ticker symbol "XTRX" on the Canadian Securities Exchange as the market opened on September 1, 2021. Prior to this on April 9, 2021 the Company changed its name from Adastra Labs Holdings Ltd. to Phyto Extractions Inc. and on December 19, 2019 from Arrowstar Resources Ltd to Adastra Labs Holdings Ltd.

On September 15, 2021, the Company acquired, indirectly through its wholly-owned subsidiary, Adastra Labs Inc, all of the issued and outstanding shares of Phyto BrandCo., the owner of the intellectual property rights for the Phyto Extractions brand. At closing, the Company issued 20 million common shares to the former shareholders of Phyto BrandCo at a share price on the date of acquisition of $1.20 per share, for total consideration of $24 million.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, which may lead to economic downturn. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted at this point.

OVERALL PERFORMANCE

As at September 30, 2021, the Company had a mortgage payable liability and was in a negative working capital position. The Company's focus for the nine months ended September 30, 2021, included the expansion of its centralized processing facility in Langley, BC. The Company received their Analytical Testing License on October 19, 2019 and received their Standard Processing License on March 13, 2020. The Company received an amendment to its Standard Processing license authorizing the sale of cannabis extract, cannabis edibles and cannabis topicals on March 13, 2021 and their Research license for organoleptic testing on April 16, 2021. In addition, in April 2021, the Company commissioned its hydrocarbon extraction line and in August 2021, submitted a further sales licence amendment for dried flower and a controlled substance dealer's licence for psychedelics.

Operations and Facility

As of the date of this MD&A, the Company focuses on the generation of revenue through two primary activities, wholesale activities and tolling services related to the production of cannabis extracts and related cannabis products.

As of April 23, 2020 the Company has completed the commissioning and commencement of operations at its 13,000 square feet facility in Langley, British Columbia (the "Langley Facility"). It currently operates a primary supercritical CO_2 extraction line for the production of crude cannabis/hemp extracts, wiped film short path distillation plant for the production of high potency cannabis distillate, a formulation, filling line and packaging line for the manufacture of tincture bottles and vaporizer products and shatter as consumer-packaged goods.

During September 2020, the Company installed and commissioned its cryo-ethanol extraction production line that triples the Company's cannabis oil production capacity while reducing overall costs. This production line allows the re-purposing of the CO2 supercritical extraction line for other cannabis concentrate products such as high terpene full spectrum extracts.

Wholesale Bulk Extracts Production

During the nine months ended September 30, 2021, the Company continued processing their own inventory of dried cannabis through supercritical CO2 and cryo-ethanol extraction lines and distillation lines for the purpose of selling the resulting bulk cannabis concentrates to licensed clients or using it to fulfill contract manufacturing orders, primarily for vaporizing cartridges. The Company has procured all of its bulk shipments of dried cannabis for its wholesale production lines from various licensed cultivators under the Cannabis Act. During the three and nine months ended September 30, 2021, the Company recognized revenue of $1,808,111 and $3,639,012, respectively.

Contract Manufacturing

For the nine months ending September 30, 2021, the Company has received and completed purchase orders from CannMart Inc., a majority-owned subsidiary of Namaste Technologies Inc., for vaporizing formulation, packaged shatter, filling and packaging for 389,339 units and testing and purchase orders from Radient Technologies (Cannabis) Inc. for 91,083 kg of bulk distillate orders and 8,080 kg of bulk shatter orders.

REVERSE ACQUISITION

On December 20, 2019, Arrowstar and Adastra completed the Transaction which constituted a reverse acquisition.

The Transaction resulted in the shareholders of Adastra obtaining control of the combined entity by obtaining control of the voting rights, governance and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entity.

The transaction constitutes an RTO of Arrowstar by Adastra and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, *Share-based payments*. As Arrowstar did not qualify as a business according to the definition in IFRS 3, the RTO does not constitute a business combination; rather it is treated as an issuance of common shares by Adastra for the net assets of Arrowstar and Arrowstar's public listing, with Adastra as the continuing entity. Accordingly, no goodwill was recorded with respect to the transaction as it does not constitute a business combination.

For accounting purposes, Adastra was treated as an accounting parent company (legal subsidiary) and Arrowstar has been treated as the accounting subsidiary (legal parent) in the financial statements and MD&A. As Adastra was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. Arrowstar's results of operations have been included from December 20, 2019.

	December 20, 2019
Assets and (liabilities) of Arrowstar acquired	$
Cash	111,496
Receivables	10,802
Other assets	7,504
Accounts payable	(356,384)
Net liabilities acquired	**(226,582)**
Consideration paid in RTO of Arrowstar	
Common shares (7,218,678 common shares at $0.15 fair value per share)	1,082,802
Listing expense	**1,309,384**

The Transaction was measured at the fair value of the shares that Adastra would have had to issue to the shareholders of Arrowstar to give the shareholders of Arrowstar the same percentage equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Adastra acquiring Arrowstar.

ACQUISITION OF PERCEIVEMD

On August 10, 2021, the Company acquired, indirectly through its wholly-owned subsidiary, Adastra Labs Inc, all of the issued and outstanding shares of PerceiveMD. At closing, the Company issued 2,513,720 million common shares to the former shareholders of PerceiveMD at a share price on the date of acquisition of $0.80 per share, for total consideration of $2.02 million.

PerceiveMD is a multidisciplinary, patient-focused center providing comprehensive assessments for medical cannabis and other therapies such as psychedelics. The acquisition will allow the Company to generate revenue from providing cannabis and psychedelic therapies which is a new business area for the Company. The Company expects to realize synergies by leveraging Adastra' s high capacity laboratory and PerceiveMD's digital care platform to become a leader in drug development and patient care.

The transaction has been accounted for as a business combination under IFRS 3 – *Business Combinations*. The preliminary allocation of the purchase consideration is as follows, noting that the Company intends to engage valuation experts to assist with the identification and measurement of intangible assets separate from goodwill:

Assets acquired:	**$**
Cash	26,302
Accounts receivable	13,647
Corporate taxes receivable	26,000
	65,949
Liabilities assumed:	
Accounts payable and other accrued liabilities	(19,206)
Fair value of net assets acquired	**46,743**
Purchase consideration	
Cash consideration	2,010,976
Share consideration	10,000
	2,020,976
Goodwill and Intangible assets	**1,974,233**

The carrying value of the assets and liabilities acquired equates to fair value due to their short term nature.

Included in the consolidated statement of loss and comprehensive loss is $71,532 of revenue and $2,987 of profit from PerceiveMD since the acquisition date of August 10, 2021. If the acquisition occurred on January 1, 2021, management estimates that revenue would have increased by $578,571 and net loss would have been decreased by approximately $62,625, respectively.

The Company's acquisition of PerceiveMD constitutes a related party transaction as Michael Forbes, Chief Executive Office and a director of the Company is also a director and controlling shareholder of PerceiveMD.

ACQUISITION OF PHYTO BRANDCO

On September 15, 2021, the Company acquired, indirectly through its wholly-owned subsidiary, Adastra Labs Inc, all of the issued and outstanding shares of Phyto BrandCo., the owner of the intellectual property rights for the Phyto Extractions brand. At closing, the Company issued 20 million common shares to the former shareholders of Phyto BrandCo at a share price on the date of acquisition of $1.20 per share, for total consideration of $24 million.

Phyto BrandCo licenses its intellectual property to Canadian cannabis license holders and collects royalties by selling cannabis consumer packaged goods to provincial distributors and retailers. The Company expects to realize synergies by leveraging Phyto BrandCo's suite of branded products to drive revenue and develop integration efficiencies.

The transaction has been accounted for as a business combination under IFRS 3 – *Business Combinations*. The preliminary allocation of the purchase consideration is as follows, noting that the Company intends to engage valuation experts to assist with the identification and measurement of intangible assets separate from goodwill:

Assets acquired:	$
Cash	301,966
Accounts receivable	255,154
Prepayments	19,500
Property and equipment	85,108
Intangible assets	35,930
	697,658
Liabilities assumed:	
Accounts payable and other accrued liabilities	(434,252)
Lease liability	(34,665)
	(468,917)
Fair value of net identifiable assets acquired	**228,741**
Purchase consideration	
Share consideration	24,000,000
	24,000,000
Goodwill and intangible assets	**23,771,259**

The carrying value of the assets and liabilities acquired equates to fair value due to their short term nature, other than property plant and equipment and trademarks which are depreciated over their estimated useful economic lives

The trademarks of $35,930 represent 21 registered trademarks the Company has with the Canadian Intellectual Property Office ("CIPO"). These trademarks have finite lives and are measured at cost less accumulated amortization and impairment losses. These trademarks are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values, and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

The lease liability represents one lease with a fair value of $34,665 on the date of acquisition, which is the net present value of the minimum future lease payments determined using the following assumptions: (1) remaining number of payments – 36; (2) monthly payment - $1,119; and (3) incremental borrowing rate – 10%.

Included in the consolidated statement of loss and comprehensive loss is $45,776 of revenue and $37,116 of losses from Phyto BrandCo since the acquisition date of September 15, 2021. If the acquisition occurred on January 1, 2020, management estimates that revenue would have increased by $1,325,872 and net loss would have been reduced by approximately $187,803, respectively.

SELECTED FINANCIAL INFORMATION

Results of Operations

For the three months and nine months ended September 30, 2021 and 2020

	Q3 2021	Q3 2020	**YTD 2021**	YTD 2020
	$	$	**$**	$
Gross Revenue	**1,808,111**	825,903	**3,639,012**	1,254,258
Cost of Sales	**(874,433)**	(875,485)	**(1,972,771)**	(1,088,721)
Gross Profit	**933,678**	(49,582)	**1,666,241**	165,537
Operating expenses	**(927,975)**	(3,768,041)	**(2,043,174)**	(7,524,415)
Net loss and comprehensive loss	**(207,864)**	(3,895,719)	**(1,081,266)**	(7,706,337)
Total assets	**40,638,028**	13,834,126	**40,638,028**	13,834,126
Current liabilities	**5,383,466**	3,798,443	**5,383,466**	3,798,443

Results - Q3 2021 compared to Q3 2020

Revenues increased to $1,808,111 during the three months ended September 30, 2021, compared to $825,903 during the three months ended September 30, 2020, from increased processing of cannabis biomass for third-party licensed producers, in-house distillate production, and hydrocarbon extraction.

Cost of sales decreased to $874,433 during the three months ended September 30, 2021, compared to $875,485 during the three months ended September 30, 2020, and consists of biomass, labour, solvents and an allocation of production overheads such as facility costs and amortization of production equipment.

For the three months ended September 30, 2021, the Company had operating expenses of $927,975 and a loss and comprehensive loss of $207,864, compared to operating expenses of $3,768,041 and a loss and comprehensive loss of $3,895,719 during the three months ended September 30, 2020.

The decrease in operating expenses and loss and comprehensive loss were the result of the Company's expenses with respect to advertising and promotion, and share-based payments having decreased as the Company moved from its startup phase into production and expansion of its business during the nine months ended September 30, 2021, offset by a rise in wages and salary costs. The most significant changes in operating expenses and other expenses were as follows:

- Advertising and promotion decreased to $193,132 during the three months ended September 30, 2021, compared to $433,859 during the three months ended September 30, 2020, due to the Company developing a more focused investor awareness campaign and being more established in the market.
- Wages and salaries increased to $248,511 during the three months ended September 30, 2021, compared to $154,063 during the three months ended September 30, 2020, due to increased hiring activity and production output related to the Langley Facility.
- Share-based payments decreased to $19,456 during the three months ended September 30, 2021, compared to $2,795,200 during the three months ended September 30, 2020 as during the three months ended September 30, 2021 only 33,333 stock options were granted (Q3 2020 - 1,616,666), all granted options vest immediately.
- During the three months ended September 30, 2021, the Company recognized a write-down of inventory of $114,800 in accordance with IFRS requirements to value inventory at the lower of cost or net realizable value. No write-down of inventory was recorded during the three months ended September 30, 2020.

Results - YTD 2021 compared to YTD 2020

Revenues increased to $3,639,012 during the nine months ended September 30, 2021, compared to $1,254,258 during the nine months ended September 30, 2020, from increased processing of cannabis biomass for third party licensed producers and in-house distillate production, and hydrocarbon extraction.

Cost of sales increased to $1,972,771 during the nine months ended September 30, 2021, compared to $1,088,721 during the nine months ended September 30, 2020, and consists of biomass, labour, solvents and an allocation of production overheads such as facility costs and amortization of production equipment.

For the nine months ended September 30, 2021, the Company had operating expenses of $2,043,174 and loss and comprehensive loss of $1,081,266, compared to operating expenses of $7,524,415 and loss and comprehensive loss of $7,706,337 during the nine months ended September 30, 2020.

The decrease in operating expenses and loss and comprehensive loss were the result of the Company's expenses with respect to advertising and promotion, office, professional fees and consulting, and share-based payments having decreased as the Company moved from its startup phase into production and expansion of its business during the nine months ended September 30, 2021, offset by a rise in wages and salary costs. The most significant changes in operating expenses and other expenses were as follows:

- Advertising and promotion decreased to $328,484 during the nine months ended September 30, 2021, compared to $694,380 during the nine months ended September 30, 2020, due to the Company developing a more focused investor awareness campaign and being more established in the market.
- Office expenses decreased to $282,686 during the nine months ended September 30, 2021, compared to $390,335 during the nine months ended September 30, 2020, as the Company moved past its startup phase and into regular production. In the prior period costs were incurred for small tools and equipment as the Company prepared the facility for operations.
- Professional fees and consulting decreased to $404,169 during the nine months ended September 30, 2021, compared to $570,814 during the nine months ended September 30, 2020, primarily due to the decrease of consultants needed to prepare the extraction process, commissioning of equipment and testing.
- Share-based payments decreased to $19,456 during the nine months ended September 30, 2021, compared to $5,332,500 during the nine months ended September 30, 2020, as during the nine months ended September 30, 2021 only 33,333 stock options were granted (YTD 2020 - 4,206,667), all granted options vest immediately.
- Wages and salaries increased to $742,346 during the nine months ended September 30, 2021, compared to $353,050 during the nine months ended September 30, 2020, due to increased hiring activity and production output related to the Langley Facility.

- During the nine months ended September 30, 2021, the Company incurred impairment of property, plant and equipment of $150,000 related to an ERP software in development that the Company determined would not be completed. No impairment of property, plant and equipment was recorded during the nine months ended September 30, 2020.
- During the nine months ended September 30, 2021, the Company recognized a write-down of inventory of $406,312 in accordance with IFRS requirements to value inventory at the lower of cost or net realizable value. No write-down of inventory was recorded during the nine months ended September 30, 2020.

SUMMARY OF QUARTERLY RESULTS

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

Period ending	Revenue	Income (loss) and comprehensive income (loss)	Weighted average number of shares	Basic and diluted income (loss) per share
	$	$	#	$
September 30, 2021	1,808,111	(207,864)	44,908,364	-
June 30, 2021	1,241,763	(509,890)	43,334,100	(0.01)
March 31, 2021	589,138	(363,512)	43,334,100	(0.01)
December 31, 2020	1,245,097	90,470	39,695,235	-
September 30, 2020	825,903	(3,895,719)	38,511,533	(0.10)
June 30, 2020	428,355	(467,584)	36,685,635	(0.01)
March 31, 2020	-	(3,343,034)	36,571,004	(0.09)
December 31, 2019 *	-	(1,785,818)	27,495,882	(0.06)

**On December 20, 2019, the Company changed its fiscal year end from April 30 to December 31. Therefore, the period ending December 31, 2019 includes only two months of the Company's operations.*

The Company's loss and comprehensive loss for the three months ended September 30, 2021, was $207,864. The increase of revenues to $1,808,111 are driven by the expansion of operations at the Langley Facility resulting in increased production and sales. The Company recognized a write-down of inventory of $114,800 relating to some older inventory that was deemed to have lower value.

The Company's loss and comprehensive loss for the three months ended June 30, 2021, was $509,890. The increase of revenues to $1,241,763 are driven by the commencement of operations at the Langley Facility resulting in increased production and sales. The Company recognized impairment of property, plant and equipment of $150,000 related to an ERP software in development that the Company determined would not be completed and a write-down of inventory of $210,001 relating to some older inventory that was deemed to have lower value.

The Company's loss and comprehensive loss for the three months ended March 31, 2021, was $363,512. Revenues of $589,138 represent the Company's fourth quarter of production revenue. The Company recognized a write-down of inventory of $81,511, representing the total fair market adjustments to inventory, and a gain on the settlement of accounts payable of $57,500 representing the value of consulting fees that were forgiven.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objectives when managing its liquidity and capital structure are to support further advancement of the Company's business objectives and existing service offerings, as well as to ensure that the Company is able to meet its financial obligations as they come due.

Cash and working capital

As at September 30, 2021 the Company has working capital deficit of $515,868 (December 31, 2020 – working capital surplus of $105,093).

Cash flow activity

	Q3 2021	Q3 2020	**YTD 2021**	YTD 2020
	$	$	**$**	$
Cash used in operating activities	**(435,703)**	(1,259,069)	**(675,235)**	(2,257,920)
Cash provided by financing activities	**967,807**	3,270,718	**851,215**	3,424,014
Cash provided by (used in) investing activities	**234,843**	(643,124)	**(113,753)**	(1,233,830)
Net increase in cash	**766,947**	1,368,525	**62,227**	(67,736)
Cash, beginning of period	**440,741**	940,565	**1,145,461**	2,376,826
Cash, end of period	**1,207,688**	2,309,090	**1,207,688**	2,309,090

Cashflow - Q3 2021 compared to Q3 2020

Cash used in operating activities of $435,703 (Q3 2020 - $1,259,069) was the result of an increase in trade receivables, offset by cash generated from revenue activity. During the prior year there was a significant cash outflows from cash spend on operating expenses such as advertising and promotion and professional fees in addition to cash spent on inventory.

Cash provided by financing activities of $967,807 (Q3 2020 - $3,270,718) was the result of cash received from mortgage refinancing offset by interest payments of the mortgage payable. During the prior period cash was provided by the issuance of unit financing offset by interest payments of the mortgage payable.

Cash provided by investing activities of $234,843 (Q3 2020 – used in $643,124) was the result of net cash received from the acquisitions of Perceive MD and Phyto BrandCo offset by cash payments made for the purchase of property, plant and equipment. In the prior period cash used in investing activities was from the purchase of property plant and equipment.

Cashflow - YTD 2021 compared to YTD 2020

Cash used in operating activities of $675,235 (YTD 2020 - $2,257.920) was the result of cash spent on inventory and deposits, offset by cash generated from revenue activity. During the prior year there was a significant cash outflows from cash spend on operating expenses such as advertising and promotion and professional fees in addition to cash spent on inventory.

Cash provided by financing activities of $851,215 (YTD 2020 - $3,424,014) was the result of cash received from mortgage refinancing offset by interest payments of the mortgage payable. During the prior period cash was provided by the issuance of unit financing and proceeds from the government loan offset by interest payments of the mortgage payable.

Cash used in investing activities of $113,753 (YTD 2020 - $1,233,830) was the result of cash payments made for the purchase of property, plant and equipment offset by net cash received from the acquisitions of Perceive MD and Phyto BrandCo. In the prior period cash used in investing activities was from the purchase of property plant and equipment.

Capital resource management

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2021. The Company is not subject to externally imposed capital requirements.

SHARE CAPITAL INFORMATION

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 September 30, 2021, and the date of this MD&A:

	September 30, 2021	Date of this MD&A
	#	#
Common shares	65,847,820	65,970,547
Stock options	2,600,001	3,715,001
Warrants	8,335,992	8,335,992
Fully diluted	76,783,813	78,021,540

Share issuances

During the nine months ended September 30, 2021, the Company had the following share transactions:

(i) During the nine months ended September 30, 2021, the Company recorded a subscription received for 122,727 units at $1.10 per unit for gross proceeds of $135,000. Each unit will consist of one common share and one transferable common share purchase warrant. These proceeds are included in as subscriptions received and will be applied against a future financing.

(ii) On August 10, 2021, the Company issued 2,513,720 unrestricted common shares at $0.80 per share for a total of $2.01 million pursuant to the acquisition of PerceiveMD.

(iii) On September 15, 2021, the Company issued 20,000,000 common shares at $1.20 per share for total consideration of approximately $24 million to acquire Phyto BrandCo.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at September 30, 2021 and December 31, 2020, and as at the date hereof.

MORTGAGE PAYABLE

	First Mortgage	Second Mortgage	Third Mortgage	Fourth Mortgage	Total
	$	$	$	$	$
December 31, 2019	2,437,175				2,437,175
New mortgage (refinancing)	(2,446,000)	2,446,000	-	-	-
Transaction costs		(18,345)	-	-	(18,345)
Finance expense	42,457	178,242	-	-	220,699
Repayments	(33,632)	(163,067)	-	-	(196,699)
December 31, 2020	-	2,442,830	-	-	2,442,830
New mortgage (refinancing)		(2,446,000)	-	3,500,000	1,054,000
Transaction costs		-	(18,345)	(32,778)	(51,123)
Finance expense		35,783	104,723	64,177	204,683
Repayments		(32,613)	(86,378)	(32,671)	(151,662)
September 30, 2021	**-**	**-**	**-**	**3,498,728**	**3,498,728**

a) On January 7, 2019, the Company entered into a mortgage for $2,446,000 (the "First Mortgage") which bore interest at the rate of 8.25% per annum, calculated monthly. The First Mortgage matured on February 1, 2020 and was renewed as discussed below.

The First Mortgage payable was recorded at amortized cost and bore an effective interest rate of 10.44%.

The carrying value of the First Mortgage at December 31, 2019 was $2,437,175. Included in mortgage payable on initial recognition were the related mortgage transaction costs of $50,755 which were amortized over the term of the First Mortgage using the effective interest rate method.

The Company maintained minimum interest-only payments of $16,816 per month in connection with the First Mortgage. Total interest expense of the First Mortgage during the nine months ended September 30, 2021 was $nil (2020 - $33,632).

b) On February 1, 2020, the Company renewed the First Mortgage of $2,446,000 (the "Second Mortgage") which bears interest at the rate of 8.00% per annum, calculated monthly. The Second Mortgage matured on February 1, 2021 and was renewed as discussed below.

The Second Mortgage payable was recorded at amortized cost and bore an effective interest rate of 8.79%.

The carrying value of the Second Mortgage payable as at December 31, 2020 was $2,442,830. Included in mortgage payable on initial recognition were the related mortgage transaction costs of $18,345 which were being amortized over the term of the Second Mortgage using the effective interest rate method.

The Company maintained minimum interest-only payments of $16,307 per month in connection with the Second Mortgage. Total finance expense of the Second Mortgage during the three and nine months ended September 30, 2021 was $nil and $35,783, respectively (2020 - $53,488 and $124,625, respectively).

c) On February 1, 2021, the Company renewed the Second Mortgage of $2,446,000 (the "Third Mortgage") which bears interest at the rate of 8.00% per annum, calculated monthly. The Third Mortgage matures on February 1, 2022, can be repaid before maturity without penalty and is secured by the mortgage property and building improvements. The Third Mortgage payable was recorded at amortized cost (principal value less $18,345 transaction costs) and bares an effective interest rate of 8.79%.

On July 9, 2021, the Third Mortgage was refinanced (Note 10(d)). As a result, the carrying value of the Third Mortgage payable at September 30, 2021 was $nil.

Until refinancing, the Company maintained minimum interest-only payments of $16,307 per month. Total finance expense during the three and nine months ended September 30, 2021 was $33,559 and $104,723, respectively (three and nine months ended September 30, 2020 - $nil and $nil, respectively).

d) On July 9, 2021, the Company refinanced the Third Mortgage and increased the facility to $3,500,000 (the "Fourth Mortgage") which bears interest at the rate of 6.50% per annum, calculated monthly for one year. The Fourth mortgage matures on July 1, 2022 and is secured by the mortgage property and building improvements. The Fourth Mortgage payable was recorded at amortized cost (principal value less $32,778 transaction costs) and bares an effective interest rate of 7.39%. The carrying value of the Fourth Mortgage payable at September 30, 2021 was $3,498,728.

   The Company maintains minimum interest-only payments of $18,958 per month. As at September 30, 2021 the total non-discounted remaining scheduled payments related to the mortgage including interest payments totaled $3,692,183. Total finance expense during the three and nine months ended September 30, 2021 was $64,177 (three and nine months ended September 30, 2020 - $nil, respectively).

RELATED PARTY TRANSACTIONS

A number of key management personnel and Directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. There were no loans to key management personnel or Directors, or entities over which they have control or significant influence during the periods ended September 30, 2021 or September 30, 2020.

During the period ended September 30, 2021, 33,333 options were granted (2020 – 5,800,000) to Officers and Directors having a fair value on grant of $19,456 (2020 – $2,531,999).

The following related parties transacted with the Company or Company controlled entities during the periods:

(a) Andrew Hale was a Director and the Company's President and CEO. He resigned on March 1, 2021.
(b) Blaine Bailey was a Director and Chairman of the Company's Audit Committee. He resigned on March 26, 2021.
(c) Stephen Brohman was the Company's CFO. He is a principal of Donaldson Brohman Martin CPA Inc. ("DBM CPA") a firm in which he has significant influence. DBM CPA provided the Company with CFO, accounting and tax services. Stephen Brohman resigned on July 14, 2021.
(d) George Routhier is a Company Director. He is the owner of Pipedreemz Inc. ("Pipedreemz"), which provides advisory services to the Company.
(e) Michael Forbes is 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.
(f) Donald Dinsmore is a Director and the Company's COO. He was appointed on April 29, 2021.
(g) Oliver Foeste is the Company's CFO. He was appointed on July 14, 2021 and is the Managing Partner of Invictus Accounting Group LLP which provides the Company with CFO, accounting and tax services.

The aggregate value of transactions with key management personnel and Directors and entities over which they have control or significant influence were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
	$	$	**$**	$
DBM CPA	**-**	42,750	**61,091**	114,750
Andrew Hale	**-**	45,021	**47,479**	135,070
Donald Dinsmore	**31,250**	-	**52,083**	-
MDC Forbes	**15,000**	-	**25,000**	-
Pipedreemz	**-**	-	**-**	2,500
Invictus Accounting Group LLP	**31,263**	-	**31,263**	-
	77,513	87,771	**216,916**	252,320

In addition to the above, the Company's acquisition of PerceiveMD constitutes a related party transaction as Michael Forbes, was also a director and controlling shareholder of PerceiveMD prior to the transaction (See Acquisition of PerceiveMD note, above, for more details).

As at September 30, 2021, the Company had an outstanding accounts payable balance with related parties as follows:

	2021	2020
	$	$
MDC Forbes	**15,750**	-
DBM CPA	**-**	12,915
Invictus Accounting Group LLP	**6,996**	-
	22,746	12,915

All related party balances are unsecured, 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

Includes advisory services of George Routhier, charged to the Company via Pipedreemz, and CEO services by Michael Forbes, charged to the Company via MDC Forbes.

(b) Professional fees

Includes accounting and tax services of the Company's former CFO, Stephen Brohman, charged to the Company via DBM CPA and accounting services of the Company's new CFO, Oliver Foeste, charged to the Company via Invictus Accounting Group LLP.

(c) Wages and salaries

Includes services by Andrew Hale as the prior CEO, and Donald Dinsmore as COO.

NEW 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, 2021. 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.

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 operations of the Company will be subject to various laws governing the production and distribution of cannabis oil, taxes, labour standards and occupational health, toxic substances, land use, water use, and other matters.

The Cannabis Act is a new regime and as such, revisions to the regime could be implemented which could have an impact on operations.

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 ability to produce cannabis oil and related products. Amendments to current laws and regulations governing the distribution, transportation and/or production of cannabis oil or related products, or a more stringent implementation thereof, could have a substantial adverse impact.

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.

Competition

The marijuana 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 Phyto. 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 marijuana 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.

COVID-19 Pandemic

The COVID-19 outbreak continues to rapidly evolve and is causing business disruptions across the entire global economy and society. The Company has taken various measures to prioritize the health and safety of its employees, customers and partners, including restricted work travel and site access, improved safety & hygiene, and the requirement of nonessential staff members to work remotely. As a manufacturer of consumable and medicinal products, the Company's practice is to always operate consistently with global pharma-quality standards to the best of its abilities, with strict hygiene practices and mandated personal protective equipment. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted at this point.

FINANCIAL RISK MANAGEMENT

Financial instruments - fair value

The Company's financial instruments consist of cash, trade receivables, deposits, accounts payable and accrued liabilities, mortgage payable and loan payable.

The carrying value of accounts payable and accrued liabilities, and loan payable approximated their fair value because of the short-term nature of these instruments. Mortgage payable approximate fair value due to its market rates of interest charged.

Financial instruments measured at fair value on the consolidated statements of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments - risk

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

Credit risk

The Company is exposed to credit risk by holding cash. This risk is minimized by holding the funds in Canadian banks and credit unions or with Canadian governments. The Company has minimal receivable exposure, and its various refundable credits are due from Canadian governments.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

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. During the three and nine months ended September 30, 2021, the Company's sales were generated by two customers representing approximately 98% and 99% (December 31, 2020 – one customer representing 100% of sales).

CRITICAL ACCOUNTING ESTIMATES AND FINANCIAL INSTRUMENTS

Refer to the Company's annual audited financial statements for the year ended December 31, 2020 and period ended December 31, 2019.

SUBSEQUENT EVENTS

(a) On October 18, 2021, the Company completed a non-brokered private placement whereby we issued 122,727 units at a price of $1.10 per unit for gross proceeds of $135,000. Each unit was comprised of one common share and one transferrable common share purchase warrant with each warrant entitling the holder thereof to acquire one common share at a price of $1.75 per share for two years from the date of the closing. The warrants are subject to an acceleration provision whereby if the daily closing price of the common shares as quoted on the Canadian Securities Exchange closes at or above $2 per share for 50 consecutive trading days, then we may accelerate the expiration date of the warrants to the date that is 30 trading days from the date that notice of such acceleration is given via news release. From and after the new accelerated expiration date, no warrants may be exercised, and all unexercised warrants will be void.

(b) On October 25, 2021, the Company granted an aggregate of 900,000 stock options to certain directors and officers for the purchase of up to 900,000 common shares at a price of $1.06 per share. Each stock option is exercisable for a period of five years.

(c) On October 28, 2021, the Company granted an aggregate of 215,000 stock options to certain employees and a consultant for the purchase of up to 215,000 common shares at a price of $0.95 per share. Each stock option is exercisable for a period of five years.

(d) On November 16, 2021, the Company announced a private placement financing to raise gross proceeds of $2,500,000 through the issuance of 2,631,578 units at a price of $0.95 per unit. Each unit will be comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire one common share of the Company at a price of $1.00 per warrant for a period of three years from the closing of the financing.

"Michael Forbes"

Director

"Donald Dinsmore"

Director