# BEVCANNA ENTERPRISES INC.

## MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2024 and 2023

Prepared as of August 12, 2024

**NOTICE TO READER**

BevCanna Enterprises Inc. is amending and re-filing the Company's Management Discussion and Analysis for the three months ended March 31, 2024, which was filed on SEDAR on August 12, 2024 (the "**Revised MD&A**").

The Company has amended and restated this filing as a result of amending and re-filing the Company's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2024, together with the accompanying notes hereto (the "**Restated Financial Statements**"). The Restated Financial Statements reflect the following changes:

For the three month period ended March 31, 2024, the restatements resulted in an increase in total expenses of approximately $423,824, an increase in net loss of approximately $423,824, an increase in total liabilities of approximately $423,824, and an increase in total shareholders' deficit of approximately $423,824.

The material adjustments in the revised financial statements were primarily due to the Company's recognition of certain Professional Fees for the three month period ended March 31, 2024. Specifically, the Company identified there was a net understatement of accrued Professional Fees for the three month period ended March 31, 2024.

**INTRODUCTION**

The following management's discussion and analysis ("MD&A") is a review of operations, current financial position and outlook for BevCanna Enterprises Inc. (the "Company") and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2023 and notes thereto. The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS").

As used in this MD&A and unless otherwise indicated, the terms "we", "us", "our", and "Company" refer to BevCanna Enterprises Inc. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

**CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

This MD&A contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from such statements. The words "aim,"

“anticipate,” “believe,” “continue,” “could,” “expect,” “intend,” “likely”, “may,” “optimistic,” “plan,” “potential”, “predict”, “should,” “would,” and other similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on material factors and assumptions made by our Company in light of management’s experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances, including but not limited to:

- the Company’s expectations regarding its consolidated revenue, expenses and operations;
- the Company’s anticipated cash needs, its needs for additional financing;
- the Company’s intention to develop its business and its operations;
- expectations with respect to future production costs and capacity; and
- the Company’s competitive position and the regulatory environment in which the Company operates.

These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those indicated in these statements, including, but not limited to:

- uncertainty with respect to the conflict between United States federal and state laws;
- uncertainty over whether the market will continue to support the Company’s products;
- the Company’s limited operating history;
- potential or actual conflicts of interest;
- the risk the Company is unable to obtain additional financing to achieve its business objectives and execute its strategy on satisfactory terms, or at all;
- uncertainty about the Company’s ability to continue as a going concern; and
- changes in general economic or political conditions.

The forward-looking statements contained in this MD&A reflect our views and assumptions only as of the date of this MD&A. The Company undertakes no obligation to update or revise any forward-looking statements after the date on which the statement is made, except as required by applicable laws, including the securities laws of Canada.

## DESCRIPTION OF BUSINESS

The Company is a diversified lifestyle and wellness consumer packaged goods company. Its wholly-owned subsidiaries focus on developing, manufacturing and distributing lifestyle and wellness consumer packaged goods for in-house brands and white-label clients via a multichannel sales network.

The Company owns and operates an approximately 40,000 sq. ft. beverage manufacturing plant through its wholly-owned subsidiary Naturo Group. The Company owns a naturally alkaline spring water aquifer located on site. Naturo Group also owns approximately 308-acres of prime agricultural land, and 5-acres of industrial zoned land on the same property. Through Naturo Group, the Company manufactures and markets the TRACE brand of Blackwater and alkaline waters, concentrates and shots to retailers and online across Canada. It also offers custom beverage manufacturing on a private label basis.

The Company plans to sell a range of proprietary nutraceutical health products on its e-commerce platform in the United States. Product segments cover life longevity, heart health, sleep health, brain support, beauty, general wellness, and natural slimming. With an extensive catalogue of premium-grade proprietary

formulations, all products will be manufactured in GMP-certified facilities and independently tested for purity.

In 2023, the Company ceased its cannabis beverage and solvent-less extract operations, previously conducted by its wholly-owned subsidiaries, BevCanna Operating Corp. and Embark Health Inc. Consequently, the licenses issued by Health Canada for these activities were surrendered during the same year. Furthermore, the Company’s majority owned subsidiary, Naturo Springs filed for voluntary bankruptcy in 2023.

On January 25, 2024, BevCanna Operating Corp., a wholly owned subsidiary, filed for bankruptcy. Subsequent to the quarter ended March 31, 2024, the Company’s wholly-owned subsidiaries, Embark Health Inc. and Embark Delta Inc. filed for bankruptcy.

## Discontinued Operations

The analysis of the Company's discontinued operations (BevCanna Operating Corp., Embark Health Inc., and Embark Delta Inc.) revealed a significant reduction in both operational losses and negative cash flow, which were previously exacerbated by the Canadian cannabis industry’s flawed rollout by the government. The decision to exit the Canadian cannabis industry, which removed $3,529,600 from the balance sheet, was driven by the unsustainable cash flow drain that threatened the company's financial stability. The public has become increasingly aware of the many companies in this industry that have completely collapsed, leaving behind millions of dollars in unpaid debts. The decision was based primarily on the following critical factors:

1. **Operational Costs:** Health Canada’s stringent staffing requirements imposed a heavy operational burden, leading to redundant staffing positions and heightened costs.
2. **Taxes:** High taxes were payable in the form of pre-payment of excise stamps, and excise taxes were to be paid at time of shipment, further straining the Company's financial resources.
3. **Transportation:** The transportation of cannabis products incurred significantly higher than transportation of traditional consumer packaged goods, in some cases 3-5x the cost, adding to the Company's operational challenges.
4. **Cash Flow:** The Company's provincial distributor customer(s), operated on Net 60 to 90-day payment terms, creating an unsustainable cash flow burden for the Company.
5. **Product Returns:** Discretionary product returns by provincial distributors, without return authorization, resulted in unexpected withdrawals from the Company's bank accounts, amounting to hundreds of thousands of dollars in aggregate. These discretionary product returns made it impossible to manage cash flow effectively after incurring production and labor costs.
6. **Regulatory Burdens:** Despite heavy investment in capital expenditures, licensing fees, and compliance with regulations, the government’s failure to eliminate the grey market meant that the regulated market remained uncompetitive.
7. **Banking:** Despite operating within the federally legal cannabis industry, the Company faced significant challenges in accessing conventional banking services, resulting in the Company having to rely on more expensive and less favorable alternative financing arrangements.

Given these insurmountable challenges, the Company made the strategic decision to exit this poorly managed industry.

Furthermore, Naturo Springs Inc., the Company’s majority-owned subsidiary filed for bankruptcy on December 12, 2023, which has no impact on future operations. This decision improved the balance sheet by $550,500 net of intercompany loans.

## OVERALL PERFORMANCE

The Company has not yet achieved profitable operations as it is still progressing in its commercialization. The Company's future performance depends on, among other things: (i) launching products with a healthy margin while staying competitive; (ii) broadening distribution into international markets; (iii) improving risk diversification by expanding the Company's business portfolio through M&A activities; and (iv) maintaining tight cost controls over production and administrative spending.

*Management Changes*

On June 21, 2023, Bruce Dawson-Scully became the President of the Company.

On June 21, 2023, Melise Panetta, resigned as President of the Company.

On July 19, 2023, Douglas Mason resigned from the Board of Directors.

On January 3, 2024, Bruce Dawson-Scully resigned as President of the Company.

On January 4, 2024, William MacDonald resigned from the Board of Directors.

## OUTLOOK

The Company intends to shift its focus towards higher-margin business segments. As part of this strategy, the Company has discontinued its cannabis operations.

During the year ended December 31, 2023, Naturo Group reported total revenues of $749,536, with a normalized gross margin of approximately 15%. Bulk sales of water represented 75% of total revenues for the year with 25% of revenues generated by Naturo Group's premium alkaline water and Blackwater product sales where gross margins averaged approximately 30%.

In Q1 2024, Naturo Group reported total revenues of $19,536 with a gross margin of approximately 44%. All product sales during the three months ended March 31, 2024 were from Naturo Group's alkaline water and Blackwater products.

As gross margins are higher on its premium alkaline water and Blackwater products, the Company intends to grow the sales of such products through expanding distribution, marketing, and the launch of new brands and products.

Strategic initiatives to increase revenue growth and improved profit margins include the following:

**Naturo Group Enterprises Inc. ("Naturo Group"):**

The Company's wholly-owned subsidiary Naturo Group maintains private label manufacturing partnerships within Canada, with notable organizations like, **London Drugs**, and **7-Eleven Canada.** Naturo Group is committed to expanding its product portfolio and distribution network for **TRACE Blackwater**, alkaline water and nutraceuticals, both domestically and internationally. In particular, Naturo Group has been pursuing opportunities in the Southeast Asia market, with a focus in China through strategic supply arrangements.

Naturo Group is undergoing a rebranding initiative for **TRACE** ready-to-drink beverage formats in North America and Southeast Asia, focusing on highlighting functionality. The branding of **TRACE Blackwater and TRACE Alkaline** positions the product as a premium and functional water, elevating it from the prevailing "low-cost" water alternatives in the market.

Naturo Group has secured import approvals in two major consumer markets for bottled water globally, namely Mexico and China. Furthermore, it has entered into a supply arrangement in China with Rocky Mountain Water (Shanghai) Ltd. ("**Rocky Mountain**"), a Shanghai-based company established in 2015. Rocky Mountain specializes in promoting wellness through premium beverage distribution and offers a

diverse product range, including functional beverages, alkaline water, and more, prioritizing quality and health-conscious choices. Leveraging a strong distribution network that includes direct-to-consumer online sales and tastemaker bricks-and-mortar locations, Rocky Mountain has positioned itself as a prominent distributor in China.

Naturo Group has secured purchase orders for **TRACE Blackwater** in China totaling $3,500,000 within the first twelve months from the initial shipment. The supply arrangement and purchase orders highlight Naturo Group's strategic expansion efforts and commitment to expanding into key markets, particularly in China, while meeting the demands of health-conscious consumers.

### E-Commerce Nutraceuticals

The Company is strategically repositioning its e-commerce business to transition to a high-margin direct-to-consumer model. Leveraging e-commerce expertise, it plans to enhance customer acquisition and retention strategies providing enhanced customer lifecycles and boosting overall profitability. The anticipated launch of the new direct-to-consumer e-commerce platform is set for Q4 2024.

The Company's e-commerce managers maintain direct relationships with GMP Certified manufacturing facilities, providing it with control over the supply chain and distribution process, boasts a comprehensive suite of marketing collateral, encompassing landing pages, e-commerce sites, and both paid and organic marketing efforts. Additionally, they have cultivated a substantial network of health and lifestyle influencers, enhancing its reach and impact in the market. Furthermore, they excel in merchandising product packages to meet consumer demands, particularly through well-received subscription offerings. The Company is strategically focusing on diverse product segments to meet demand for health-conscious consumers.

### Summary

BevCanna has worked on enhancing operational efficiency, refining its business plan to concentrate on higher-margin business segments, and expanding its presence in the world of branded products and finished-goods manufacturing.

## SELECTED FINANCIAL INFORMATION

| | Three months ended March 31, 2024 (Unaudited) $ | Year ended December 31, 2023 (Audited) $ |
|---|---|---|
| Total revenues | 19,536 | 749,536 |
| Net loss from continued operations | (1,914,802) | (7,543,867) |
| Net loss from discontinued operations | (78,595) | (5,000,849) |
| Net loss | (1,993,397) | (12,544,716) |
| Loss per share (basic and diluted) | (0.64) | (1.08) |
| Cash (used in) provided by operating activities | (835,585) | (1,207,187) |

| Statements of Financial Position | As at March 31, 2024 (Unaudited) $ | As at December 31, 2023 (Audited) $ |
|---|---|---|
| Assets | | |
| Current assets | 863,953 | 794,952 |

| | | |
|---|---|---|
| Non-current assets | 12,145,811 | 12,274,309 |
| Total assets | 13,009,764 | 13,069,261 |
| | | |
| Liabilities | | |
| Current liabilities | 16,372,138 | 17,152,509 |
| Non-current liabilities | 210,000 | 230,000 |
| Total liabilities | 16,582,138 | 17,382,509 |
| | | |
| Total shareholders' equity | (3,572,374) | (4,313,248) |
| Total liabilities and shareholders' equity | 13,009,764 | 13,069,261 |

**DISCUSSION OF OPERATIONS**

*For the three months ended March 31, 2024*

*Revenue*

For the three months ended March 31, 2024, the Company's continuing operations generated its revenue through its conventional beverage subsidiary, Naturo Group.

The revenue generated from continuing operations was $19,536 for the three-month period ended March 31, 2024, of which $10,895 was the cost of sales, generating a gross profit of $8,641. Conversely, the three months period ended March 31, 2023 generated revenue of $26,544, of which $102,568 was cost of sales, generating a gross loss of $76,024. The revenue decline in 2023 compared to 2022 was mainly attributed to slow ecommerce sales, which were impacted by capital constraints stemming from the previously imposed CTO.

The revenue generated from Pure Therapy was $nil for the three-month period ended March 31, 2024, and the three-month period ended March 31, 2023. The decline in revenue, occurred as a result of the Company's decision to wind down Pure Therapy's low net margin affiliate marketing business model, in order to replace it with a higher-margin direct-to-consumer ("DTC") approach. Revamped product offerings are anticipated to launch in late 2024.

| | **Three months ended March 31, 2024 (Unaudited) $** | **Three months ended March 31, 2023 (Audited) $** |
|---|---|---|
| Total revenues | 19,536 | 26,544 |
| Cost of products and services | (10,895) | (102,568) |
| Gross profit | 8,641 | (76,024) |

*Net Loss*

During the three-month period ended March 31, 2024, the Company recorded a gross profit from continuing operations of $8,641, administrative expenses of $2,793,362, financing costs of $146,966, foreign exchange loss of $12,548, other losses of $20,000, impairment of prepaids & deposits of $9,237, and gain from debt settlement of $1,058,681. This resulted in a net loss from continuing operations of $1,914,802.

The main factors that contributed to the loss in the period were amortization of $128,498, management fees of $213,000, plant operation and office expenses of $165,705, professional fees of $1,975,338, and marketing expenses of $146,609. Professional fees substantially increased in the three months ended March 31, 2024 because the board of directors of the Company agreed to compensate its management team, board members, and consultants with bonuses in consideration for their efforts to help the Company through the long period that the Company was Cease Traded and unable to pay cash compensation or issue equity based awards.

The gross profit improved from a loss of $76,024 during the three-month period ended March 31, 2023 to a profit of $8,641 during the three-month period ended March 31, 2024. This increase is attributed to the elimination of one-time charges, specifically a customer disputed credit and the use of inventory to resolve a vendor debt.

During the three-month period ended March 31, 2024, there was a net loss from continuing operations of $1,914,802, compared to a net loss from continuing operations of $1,560,169 during the three-month period ended March 31, 2023 which can be largely ascribed to several key factors:

- Professional fees increased from $648,706 during the three-month period ended March 31, 2023, to $1,975,338 during the three-month period ended March 31, 2024. This increase is largely attributed to the payment of bonuses in consideration for management, board members and consultants supporting the Company through the long period that the Company was Cease Traded and unable to pay cash consideration or issue equity based awards.

- Financing costs increased from $56,775 during the three-month period ended March 31, 2023, to $146,966 during the three-month period ended March 31, 2024. This increase is attributed to heightened financing activity.

- Gain on debt settlement increased from $nil during the three-month period ended March 31, 2023, to $1,058,681 during the three-month period ended March 31, 2024. This increase is due a one-time gain to the share for debt settlement with various vendors, consultants, and related parties by issuing 29,096,332z(1,454,816 shares post 20:1 share consolidation) common shares valued at $2,036,743 to settle $2,909,633 in debt.

- Plant operations, facilities and office expenses decreased from $324,223 during the three-month period ended March 31, 2023, to $165,705 during the three-month period ended March 31, 2024. This decrease is due to the scaled-back operations, aligned with cost reduction strategies.

- Marketing expenses increased from $12,134 during the three-month period ended March 31, 2023, to $146,609 during the three-month period ended March 31, 2024. This increase is largely attributed to the startup costs associated with operations in China.

**Strategic Shift for Sustainable Growth**

The Company is strategically realigning its business model to prioritize higher net-margin opportunities and reduce operating expenses. The forward-looking strategy encompasses:

- Naturo Group expanding its white label and private label business: The Company aims to boost profitability by expanding its white label and private label businesses to leverage higher-margin products and circumvent retailer listing fees.

- Launching direct-to-consumer e-commerce model: The Company plans to launch its direct-to-consumer e-commerce model with an array of proprietary nutraceutical product offerings which

enables opportunities for higher profit margins and increased control over sales strategies.

- Southeast Asia distribution focus: Naturo Group has entered into an alliance with Rocky Mountain Water (Shanghai) Ltd. in China, known for premium beverage distribution, securing TRACE Blackwater purchase orders totaling $3,500,000 in the first twelve months from initial shipment, reflecting higher margins. This alliance aligns with Naturo Group's strategic expansion into key markets, notably China, to meet the preferences of health-conscious consumers.

These initiatives are designed to augment revenue, uphold higher margins, and curtail operational expenses, ultimately positioning the Company to achieve breakeven at a lower revenue threshold moving forward.

## SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of the previous eight quarters of the Company's financial performance:

| | Q1 2024 | Q4 2023 | Q3 2023 | Q2 2023 |
|---|---|---|---|---|
| Total revenues | 19,536 | 42,132 | 336,907 | 332,552 |
| Income (loss) from discontinued operations | (78,595) | (5,024,875) | 199,734 | (140,930) |
| Loss | (1,970,816) | (7,899,740) | (1,697,045) | (1,352,984 |
| Loss per share (basic and diluted)(i) | (0.64) | (4.80) | (1.38) | (1.10) |
| | **Q1 2023** | **Q4 2022** | **Q3 2022** | **Q2 2022** |
| Total revenues | 26,554 | 172,123 | 286,946 | 485,669 |
| Loss from discontinued operations | (34,778) | (7,991,643) | (951,658) | (1,057,418 |
| Loss | (1,594,947) | (9,365,148) | (2,508,942) | (2,832,260 |
| Loss per share (basic and diluted) (i) | (1.28) | (7.52) | (1.98) | (2.16) |

(i) The Company has completed two share consolidations:
- December 21, 2023, a 10:1 share consolidation
- February 23, 2024, a 20:1 share consolidation

**The following trends have been evident over the past eight quarters:**

### 1. Pure Therapy Contribution and Transition

Pure Therapy's revenue performance underwent a shift in 2022. While the Company made a substantial contribution to its revenue in 2021, Pure Therapy experienced $4,395 revenue in the third quarter of 2022. Revenue has remained nominal thereafter. This decline was primarily attributed to the Company's strategic decision to gradually phase out the affiliate marketing model. This move was driven by the model's challenges, which included low net margins and the intricacies associated with the audit process. The Company plans to introduce a new direct-to-consumer e-commerce business model to achieve higher net margins and simplify the accounting processes.

### 2. Seasonal Beverage Business

The beverage segment experiences seasonality, with peak sales occurring in the summer, while Q4 and Q1 traditionally yield lower sales. Despite this pattern, beverage sales have remained steady.

**SUMMARY OF ANNUAL RESULTS (AUDITED)**

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| | $ | $ | $ |
| Revenues from continuing operations | 749,536 | 1,378,126 | 3,117,677 |
| Revenues from discontinued operations | 1,488,338 | 7,026,249 | - |
| Total revenues | 2,237,874 | 8,404,375 | 3,117,677 |
| Net losses from continuing operations | 7,543,867 | 4,724,188 | 98,945,950 |
| Net losses from discontinued operations | 5,000,849 | 11,017,291 | - |
| Total net loss | 12,544,716 | 15,741,479 | 98,945,950 |
| Loss from continued operations attributable to shareholders of the Parent | 12,105,440 | 16,838,124 | 98,892,553 |
| Loss per share (basic and diluted)(i) | 1.08 | 0.14 | 0.59 |
| | **2023** | **2022** | **2021** |
| Total assets | 13,069,261 | 21,799,269 | 18,926,202 |
| Non-Current Liabilities | 230,000 | 230,000 | 561,386 |
| Dividends Declared | - | - | - |

The Company has undergone significant challenges during the three fiscal years ended December 31, 2023, 2022 and 2021. The Company was adversely affected by a Cease Trade Order that was imposed from August 22, 2022 to November 3, 2023. During such time, the Company was unable to raise funds and significantly scaled back operations to save costs.

Revenues: The ramp up of the Company's cannabis manufacturing operations in 2021 through to mid year 2022, followed by the decision to suspend and ultimately discontinue these operations in late 2022 and 2023 respectively for the reasons previously described in the discontinued operations section.

Net losses: Cash operation losses of $5.3 million, $4 million, and $8.6 million respectively for 2023, 2022 and 2021 stemming from high start-up and operating costs.

Non-cash losses stemming from the goodwill and intangible asset write-offs of Naturo (2021: $77 million), Embark (2022: $8.2 million) and Naturally Pure Therapy (2021: $5.2 million).

The goodwill impairment charge for Naturo Group of $71.2 million was largely a function of IFRS policy which requires that an acquisition that is to be paid for by shares of the acquirer be valued based on the acquirer's share price as of the closing date of the acquisition. Over the period from the date of signing the definitive agreement and the closing, BevCanna's stock climbed from 40 cents to $1.30, creating an unsupportable level of goodwill. Naturo Group was BevCanna Operating Corps' landlord. On the Acquisition of Naturo Group, the License Agreement asset that defined the landlord's compensation agreement was nullified, resulting in Naturo Group recording an impairment loss of $6.9 million.

Embark Health Inc. encountered a sales shortfall, resulting in goodwill charges of $6 million and a brand impairment of $2.2 million, amounting to a total loss of $8.2 million. Furthermore, unrecorded liabilities and subsequent litigation cast additional doubt on its ongoing viability.

The Naturally Pure Therapy Products Corp. (“NPT”) goodwill of $3.2 million and intangible asset impairment of $2 million charges were attributable to declining margins from what became an overly competitive market for affiliate marketing firms which led to the decision to abandon this marketing approach and relaunch under a higher margin direct-to-consumer model as previously discussed.

## LIQUIDITY AND CAPITAL RESOURCES

*Working Capital*

As at March 31, 2024, the Company had a working capital deficiency of $15,508,185 (cash and non-cash) (December 31, 2023 - $16,357,557). Management intends to satisfy the working capital deficiency through debt for equity settlements with its creditors, debt financing, equity financing, debt restructuring, and/or its operational revenues. Management will continue to diligently monitor and adjust the capital budget based on expected cash flows from capital raising, accounts receivable financings, option and warrant exercising, and operational revenues, and as such management believes the Company will have sufficient resources to fund its future operations and expansion plan.

*Cash used in Operating Activities*

During the three months ended March 31, 2024, the Company had cash used in operating activities of $835,585 (2022 – $4,612).

*Cash used in Investing Activities*

During the three months ended March 31, 2024, the Company used $nil (2022 – $nil) in cash from investing activities.

*Cash provided by Financing Activities*

During the three months ended March 31, 2024, the Company received net proceeds of $773,356 (2022 - $nil) in cash from financing activities. The $773,356 proceeds was for secured promissory notes.

*Future Capital Requirements*

In addition to funding its current working capital deficiency, the Company anticipates that it will require approximately $1,385,000 in capital expenditures to maintain current operations for the next 12-month period, including expenses to maintain its head office, operating beverage facility, and cover general and administrative expenses required to operate the facility effectively with staff and inventory. In addition to this amount, the Company intends to expand operations and markets as set out herein, and anticipates that such initiatives will require additional funds of approximately $655,000 over the next 12-month period.

The Company will need to continue to raise capital, to support its working capital commitments. The Company has limited capital resources and must rely upon the sale of equity securities, share for debt securities, and/or long-term convertible or standard debt, or the exercise of options and warrants for cash required for working capital purposes, for acquisitions and to fund the administration of the Company. The Company is not yet at the stage where it is able to self-fund and it must continue to rely upon the sales of its equity and debt securities to raise capital, which may result in material dilution to existing shareholders. There is no assurance that financing, whether debt or equity, will be available to the Company in the amount required by the Company at any particular time or for any period and that such financing can be obtained on terms satisfactory to the Company or at all.

The Company intends to address the working capital deficiency concurrently with addressing the capital requirements to maintain operations primarily through debt restructuring, shares for debt and future equity financings. Once these items are sufficiently addressed, the Company anticipates it will then be in a position

to expand operations. The Company's expansion plans are also primarily dependent up on the Company's ability to raise funds through future sales of equity.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company did not enter into any off-balance sheet arrangements during the three months ended March 31, 2024 or as of the date of this report.

## TRANSACTIONS BETWEEN RELATED PARTIES

During the three months ended March 31, 2024 and 2023, the Company incurred the following related party transactions:

| Three months ended, | March 31, 2024 $ | March 31, 2023 $ |
|---|---|---|
| Management and Consulting fees | | |
| Chief Financial Officer ("CFO") and Chief Strategic Officer ("CSO") | 60,000 | 60,000 |
| Chief Executive Officer ("CEO") | 130,033 | 75,000 |
| Mr. Dawson-Scully (Former President) | 71,666 | - |
| Ms. Panetta (Former President) | 10,500 | 50,001 |
| Mr. Ciambrelli (Sr. Ops Manager and Director) | 37,500 | 39,919 |
| Mr. Mason (Former Director), Mr. Macdonald (Former Director) and Mr. Blank (Director) | 94,200 | 30,000 |
| Company controlled by CEO | 60,000 | - |
| Company controlled by individual related to CEO | 115,000 | 37,500 |
| Company controlled by individual related to Sr. Ops Manager and Director | 116,023 | - |
| Individual related to CEO | 21,652 | - |
| | 716,574 | 292,420 |

*Related Party Balances:*

As at March 31, 2024, the following amounts were included in accounts payable and accrued liabilities in relation to transactions with related parties, which were non-interest bearing, unsecured and due on demand:

| | March 31, 2024 $ | December 31, 2023 $ |
|---|---|---|
| *Accounts payable and accrued liabilities:* | | |
| Chief Financial Officer ("CFO") and Chief Strategic Officer ("CSO") | 294,000 | 462.000 |
| Chief Executive Officer ("CEO") *(i)* | 647,538 | 616,114 |
| Mr. Dawson-Scully (Former President) | 71,666 | 339,000 |
| Ms. Panetta | - | 105,921 |
| Mr. Ciambrelli | 41,256 | 76,552 |
| Mr. Mason, Mr. Macdonald and Mr. Blank | 31,950 | 228,403 |
| Company controlled by CEO | 63,000 | - |

| | | |
|---|---|---|
| Company controlled by individual related to CEO | 414,836 | 343,961 |
| Company controlled by individual related to Former President | 116,023 | - |
| Individual related to CEO *(ii)* | 139,955 | 139,955 |
| **Subtotal** | **1,820,225** | **2,311,906** |
| *Convertible Debenture* | | |
| Directors | - | 57,917 |
| **Subtotal** | **-** | **57,917** |
| *Short- term loans* | | |
| Company controlled by individual related to CEO | 203,160 | 203,160 |
| Individual related to CEO *(ii)* | 169,675 | 169,300 |
| **Subtotal** | **373,285** | **372,460** |
| *Due to related parties* | | |
| Chief Executive Officer ("CEO") | 37,279 | 47,541 |
| Company controlled by individual related to CEO | 5,000 | 5,000 |
| **Subtotal** | **42,279** | **52,541** |
| **Total** | **2,235,788** | **2,794,824** |

(i) The CEO also provided a shareholder loan to the company of $100,000 in 2022. During the period ended March 31, 2024, a partial repayment of $10,262 (2023 - $52,459) was made on this loan.

(ii) Two individuals related to the CEO each provided $125,000 USD in purchase order factoring to the Company for productions. The financing fee is $25,000 USD each. $25,000 USD principal was repaid during 2022. At the end of September 30, 2023, $275,000 USD remained outstanding. During the year ended December 31, 2023, additional financing fees of $25,000 USD and $10,000 CAD were incurred for the extended repayment period. During the three months ended March 31, 2024, additional financing fees of $5,000 USD were incurred for the extended repayment period.

*Convertible debenture*

*BevCanna Debentures*

On April 14, 2020, the Company completed a non-brokered financing of $630,000 by issuing convertible debentures ("Debentures"). The Debentures accrue interest at the rate of 8% per annum payable semi-annually and mature on April 14, 2023. The Debentures are convertible to common shares of the Company at $0.75 per share.

The holders of the Debentures are entitled to convert the unpaid principal and interest into common shares of the Company at a conversion price of $0.75 per share. If at any time the daily weighted average trading price of the Company's shares is greater than $1.00 for the preceding 10 days, the Company will have the option to convert the outstanding principal amount at the price of $0.75 per share.

The initial liability component of the Debentures was calculated at the present value of interest payments and expected return using an effective interest rate of 16% per annum. The equity component was determined using the residual method whereby, the fair value of the equity component is arrived at by deducting the amount determined separately for the liability from the face value of the instrument. As a result, the fair value of the conversion feature was determined to be $118,252 and was recognized into the equity reserve of the Company.

On February 8, 2021, the Company completed an early redemption for $115,000 of the debenture and paid $124,532 towards the outstanding principal and accrued interest. On the same date, the Company

converted $15,000 of the debentures into 20,000 common shares. The Company reclassified $3,754 from equity reserves to share capital related to this conversion.

On March 31, 2024, $38,575 accrued interest remains outstanding for the BevCanna Debenture.

*Naturo Group Debenture*

On January 27, 2021, Naturo Group completed a debt settlement with an individual related to the CEO of the Company (Note 15) by issuing a convertible debenture for $1,505,021 with an interest bearing at 10% per annum, payable monthly and maturing in 24 months. The debenture is convertible to common shares of the Company at $0.40 per share at any time at the discretion of the debenture holder. Upon assumption by the Company on the Acquisition Date, the convertible debenture was valued at $1,468,373.

On June 28, 2021, the Company entered into a debenture amendment and cancellation agreement with the related party to settle the $1,505,020 in the convertible debenture plus a $500,000 payable for finance charge, with a receivable of $2,005,020 from the CEO of the Company. There was $nil gain or loss on the settlement of these balances.

Upon the settlement, the convertible debenture has an outstanding balance of $1,525,459 for the principal and accrued interest. Following the settlement, the excess $20,439 accrued interest payable was paid during the year ended December 31, 2023.

The total value of the outstanding debenture as at March 31, 2024, is $558,014.

| | $ |
|---|---|
| Balance, December 31, 2021 | 461,408 |
| Addition | 50,000 |
| Accretion expense | 45,553 |
| Finance charge | 42,916 |
| Finance charge payment | (20,000) |
| Balance, December 31, 2022 | 579,876 |
| Accretion expense | 27,599 |
| Finance charge | (1,517) |
| Balance, December 31, 2023 | 605,958 |
| Reduction | (57,917) |
| Finance charge | 9,972 |
| Balance, March 31, 2024 | 558,014 |

## FINANCIAL INSTRUMENTS

The Company is exposed to a number of financial instrument risks related to changes in interest rates, collection of accounts receivable, settlement of liabilities, foreign currency exchange rates and management of cash from a liquidity perspective. The Company manages these risks through internal risk management policies. The Company's risk management activities are designed to mitigate possible adverse effects on the Company's performance, having regard for the size and scope of the Company's operations, with a primary focus on the preservation of capital. Many of the Company's strategies are based on historical patterns and correlations and management's expectations of future events. However, these strategies may not be fully effective in all market environments or against all types of risks. Unexpected market developments may affect risk management strategies during this time, and

unanticipated developments could impact the Company's strategies in the future. If any of the variety of instruments and strategies utilized is not effective, the Company may incur losses. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company limits its exposure to undue credit risk from cash and cash equivalents by holding them with high credit quality financial institutions located in Canada. The Company manages its exposure to credit risk by assessing the associated risk of default prior to accepting new customers, monitoring the level of accounts receivable attributable to each customer, the length of time taken for amounts to be settled, and maintaining reserves for potential credit losses. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms. Management does not believe that there is significant credit risk arising from any of the current customer base. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts. The Company's fixed-rate debt structure effectively minimizes interest rate risk. Furthermore, the current risk associated with foreign currency fluctuations has been significantly reduced as a result of winding down its US-based affiliate marketing e-commerce business.

*Foreign currency risk*

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Actual results could differ from these estimates.

*Estimates and Judgements*

The following are the key assumptions estimates and judgments that have a significant risk of resulting in a material adjustment to the Company's financial statements:

*Property, Plant, Equipment, and Intangible Assets*

The Company makes estimates on the useful lives when determining depreciation of property and equipment and the amortization of intangible assets are dependent on estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and useful lives of assets.

*Share-Based Payments*

The Company uses the Black-Scholes Option Pricing Model to value options and warrants granted during the year. The model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates of expected interest rate, volatility, and terms that are subjective and may not be representative of actual.

*Income Taxes*

Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

*Business Combinations*

In an acquisition that constitutes a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. Estimates are applied in the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The valuations are linked closely to the assumptions made by management regarding revenue growth rates, expected operating cashflows, discount rates and earnings multiples.

*Going Concern*

The assessment of the Company's ability to continue as a going concern and its ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances.

*Impairment Testing*

The Company's assets are aggregated into cash-generating units ("CGU" or "CGUs") for the purpose of calculating impairment. CGUs are based on an assessment of the unit's ability to generate independent cash inflows. The Company evaluates CGU at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when assessing whether there are indications of impairment for the Company's intangible assets and goodwill. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider various factors such as economic and market conditions, revenue growth rates, discount rates, future capital expenditures, expected operating margin changes, and future use of these assets.

## Disclosure of Outstanding Security Data

The Company has one class of shares outstanding, being common shares. As of the date of this report, 4,827,373 (December 31, 2023 – 1,617,243, as adjusted for the February 23, 2024 reverse stock split) common shares were issued and outstanding as fully paid and non-assessable shares, of which 15,996 common shares were held in treasury.

On February 23, 2024, the Company completed a 1-for-20 reverse stock split of its common shares. This is to streamline its capital structure and bolster share price attractiveness for investors.

As of the date of this report, the Company had 1,750 stock options outstanding (December 31, 2023 – 3,000 after 1:20 stock split).

As of the date of this report, the Company had nil common share purchase warrants outstanding (December 31, 2023 – 26,396 after 1:20 stock split).

## SUBSEQUENT EVENTS

*Secured Promissory Note Financing*

Subsequent to March 31, 2024, Naturo secured $618,353 through subscriptions for Secured Note with various subscribers. The notes have maturity dates between April 16 to May 9, 2025 and accrue interest at 15% per annum, with the total interest payable in advance and deducted from the principal amount on the closing date.

*Shares for Debt Settlement*

Subsequent to March 31, 2024, the Company settled $1,930,743 in debts owed to various vendors, consultants, and related parties by issuing 1,755,209 common shares, of which $383,233 was settled with related parties. The fair value of the shares is $2,545,053, resulting in a recognized loss on debt settlement of $614,310.

*Share for Debt Settlement*

On June 19, 2024 the Company settled debt in the aggregate amount of $2,660,139.05 owed by the Company to certain creditors of the Company which consists of the following: $683,669.23 owed to certain creditors of the Company in exchange for an aggregate of 1,139,448 common shares at a deemed price of $0.60 per share and $1,976,469.82 owed to certain creditors of the Company in exchange for 3,294,113 units of the Company (each, a “Unit”) at a deemed price of $0.60 per Unit, each Unit consisting of one common share of the Company and 0.35 common share purchase warrants (each whole warrant, a “Warrant”), with each Warrant exercisable to purchase an additional common share of the Company (each, a "Warrant Share") at an exercise price of $0.60 per Warrant Share for a period of two years from the closing date of the debt settlement transaction. The Warrants and Warrant Shares will be subject to a restricted period of four months and one day as required by the Canadian Securities Exchange.

*Bankruptcy Filing*

On July 19, 2024 the Company’s wholly-owned subsidiary, Embark Health Inc. filed for bankruptcy. Manning & Associates Inc. was appointed trustee of the estate of the bankrupt by the official receiver subject to affirmation by the creditors of the trustee’s appointment or substitution of another trustee by the creditors.

*Acquisition of Greenflame Distribution Ltd.*

On July 25, 2024 the Company announced it has entered into a share exchange agreement dated July 24, 2024 (the "Agreement") to acquire health and wellness nutraceutical products company Greenflame Distribution Ltd. (“Greenflame”), an arm’s-length private British Columbia corporation (the "Acquisition"). Greenflame owns a proprietary product portfolio. Closing of the transaction is subject to regulatory approval.

*Non-brokered Private Placement*

On August 2, 2024 the Company closed the first tranche of its non-brokered private placement for common shares of the Company at a price of $0.60 per common share for aggregate gross proceeds of $232,850 for a total of 388,082 common shares (the “Offering”). The remainder of the Offering may close in one or more additional tranches.

## USE OF PROCEEDS FROM FINANCING FOR THREE MONTHS ENDED MARCH 31, 2024

| **Use of Proceeds** | |
|---|---|
| | |
| **Category** | **Amount** |
| Proceeds | $812,065 |
| Consultants | ($271,865) |
| Financing | ($154,643) |
| Legal | ($21,000) |
| Operations | ($283,821) |
| Payroll | ($80,735) |

## RISKS AND UNCERTAINTIES

The following information is only a summary of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A. These risks and uncertainties are not the only ones the Company is facing. Additional risks and uncertainties not presently known to the Company, or that it currently deems immaterial, may also impair its operations. If any such risks actually occur, the business, financial condition, liquidity and results of the Company’s operations could be materially adversely affected.

Limited Operating History

The Company was incorporated in 2017. The Company is therefore subject to many of the risks common to early-stage enterprises, including limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders’ investment and the likelihood of success must be considered in light of the early stage of operations.

History of Net Losses

The Company has incurred operating losses since incorporation. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses into the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to grow its business. If the Company’s revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Negative Operating Cash Flow

The Company has had negative cash flows from operating activities. It is anticipated that the Company will continue to have negative cash flows in the foreseeable future. Continued losses may have the following consequences:

a) increasing the Company's vulnerability to general adverse economic and industry conditions;

b) limiting the Company's ability to obtain additional financing to fund future working capital, capital expenditures, operating costs and other general corporate requirements; and

c) limiting the Company's flexibility in planning for, or reacting to, changes in its business and the industry.

The Company's business strategy is constantly evolving

The Company's business strategy involves constantly seeking new opportunities in the beverage industry. In the pursuit and execution of such opportunities, the Company may fail to select appropriate investment candidates and/or fail to negotiate beneficial or advantageous contractual arrangements. The Company cannot provide assurance that it can complete any investment or business arrangement that it pursues or is pursuing, on favourable terms, or that any investments or business arrangements completed will ultimately benefit the Company.

Failure to integrate acquired business and realize benefits from acquisitions

The Company may grow by acquiring other businesses. The consummation and integration of any acquired business, product or other assets into the Company may be complex and time-consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

Additional Financing

The building and operation of the Company's proposed facilities and businesses are capital intensive. In order to execute the anticipated growth strategy, the Company will require some additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of common shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors

could materially and adversely affect the business, financial condition and results of operations of the Company.

Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. The demand for products may increase and the Company expects that competition will become more intense as current and future competitors 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 of the Company.

Product Liability

As a manufacturer 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. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products 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 Company's results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or 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 obtain 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.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant Management attention. Although the Company has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of the Company will be subject in connection with the operations of the Company. In particular, certain of the directors and officers of the

Company are involved in managerial and/or director positions with other companies whose operations may, from time to time, be in direct competition with those of the Company. Any decision made by such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such for other companies. In addition, such directors will declare, and refrain from voting on, any matter in which such directors may have a conflict of interest.

Risk Related as a Going Concern

The ability of the Company to continue as a going concern is uncertain and dependent upon its ability to achieve profitable operations, obtain additional capital and receive continued support from its shareholders. Management of the Company will have to raise capital through private placements or debt financing and proposes to continue to do so through future private placements and offerings. The outcome of these matters cannot be predicted at this time.

Reliance on Key Personnel and Advisors

The success of the Company will be largely dependent upon the performance of its key officers, consultants, and employees. The loss of their services may have a materially adverse effect on the business of the Company. There can be no assurance that one or all of the employees of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.

Licenses, Patents and Proprietary Rights

The Company's success could depend on its ability to protect its intellectual property, including trade secrets, and continue its operations without infringing the proprietary rights of third parties and without having its own rights infringed.

OTHER MD&A REQUIREMENTS

Additional information related to the Company can be found on SEDAR+ at www.sedarplus.ca