**DELIC HOLDINGS INC.**

**Management’s Discussion and Analysis**

**For the six months ended June 30, 2021**

This Management’s Discussion and Analysis (“MD&A”) of Delic Holdings Inc. (the “Company”) should be read in conjunction with the condensed consolidated interim financial statements and notes thereto for the six months ending June 30, 2021, and the Company’s annual audited consolidated financial statements for the year ended December 31, 2020. Such financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

All dollar amounts are expressed in US dollars unless otherwise indicated.

**DATE**

This MD&A is prepared as of August 29, 2021**.**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The information provided in this MD&A, including information incorporated by reference, may contain “forward-looking statements” about the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as “may”, “will”, “would”, “could”, “should”, “believes”, “estimates”, “projects”, “potential”, “expects”, “plans”, “intends”, “anticipates”, “targeted”, “continues”, “forecasts”, “designed”, “goal”, or the negative of those words or other similar or comparable words.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the party making the statement and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

1. the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest; and
2. other risks described in this MD&A and described from time to time in documents filed by the Company with Canadian securities regulatory authorities.

With respect to the forward-looking statements contained herein, although the Company believe that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements, because no assurance can be given that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: the availability of sources of income to generate cash flow and revenue; the dependence on management and directors; risks relating to the receipt of the required licenses, risks relating to additional funding requirements; due diligence risks; exchange rate risks; potential transaction and legal risks; risks relating to regulations applicable to the production and sale of marijuana; and other factors beyond the Company’s control.

Consequently, all forward-looking statements made in this MD&A and other documents of the Company, as applicable, are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Company. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on its behalf may issue. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

References to EBITDA in this MD&A refer to net earnings from continuing operations before interest, taxes and tax recoveries, amortization, deferred income tax recovery, unrealized foreign exchange losses, non-cash share-based expenses (Black-Scholes option pricing model) and write-off of assets. EBITDA is not an earnings measure recognized by IFRS and does not have a standardized meaning prescribed by IFRS. Management believes that EBITDA is an alternative measure in evaluating the Company's business performance. Readers are cautioned that EBITDA should not be construed as an alternative to net income as determined under IFRS; nor as an indicator of financial performance as determined by IFRS; nor a calculation of cash flow from operating activities as determined under IFRS; nor as a measure of liquidity and cash flow under IFRS. The Company's method of calculating EBITDA may differ from methods used by other Companies and, accordingly, the Company's EBITDA may not be comparable to similar measures used by any other Company.

**OVERVIEW AND OUTLOOK**

Delic Holdings Inc. (formerly Molystar Resources Inc.) (the “Company”) was incorporated in British Columbia on November 17, 2005. It’s operating subsidiary, Delic Corp., was incorporated on March 7, 2019 in Delaware. The Company’s head office is located at 885 West Georgia, Suite 1400, Vancouver, BC V6C 3E8. The Company owns and operates a self-sustaining umbrella of businesses in the psychedelic ecosystem consisting of media, science, and health.

As at June 30, 2021, the business of the Company was the business of Delic Corp., Delic Labs Inc. (  
Delic Labs”), and Ketamine Infusion Centers, LLC (“KIC”).

*Delic Corp.*

Founded in 2019, Delic Corp. was formed to address the growing interest in psychedelic science. The ‎company was formed as the first psychedelic umbrella media platform and is currently a trusted media source for those interested in psychedelic science. ‎ Delic Corp. is an international media ecosystem and platform providing information about the psychedelics sector. Delic Corp. has developed an online media presence and has garnered interest in the topic of psychedelics from all over the world. Delic Corp. intends to capitalize on this interest by hosting a biannual summit in Los Angeles, California.

Delic Corp. was formed to provide people with knowledge regarding the growing space of psychedelic ‎wellness. Delic Corp. aims to inform and educate the public on the rapidly growing medical psychedelic market globally, where psychedelic therapies are used as possible treatments for PTSD, anxiety, depression and other mental health conditions. ‎

According to a Data Bridge Market Research report published in January 2020, "the (US) psychedelic drugs ‎market is expected to gain market growth in the forecast period of 2020-2027 with a CAGR of 16.3% and ‎is expected to reach USD 6,859.95 million by 2027 from USD 2,077.90 million in 2019."[[1]](#footnote-1)‎ ‎ The report goes ‎on to say that this growth is due to the "growing acceptance of psychedelic drugs for treating depression ‎and increasing prevalence of depression and mental disorders are the factors for the market growth." With increased interest in the psychedelics industry, Delic Corp. anticipates growth in all segments of its platform.

Delic Corp.'s business consists of The Delic (e-commerce website and blog), Reality Sandwich (online education platform), Meet Delic (bi-annual event) and Delic Radio (podcast), each of which is dedicated to public education ‎and de-stigmatizing the psychedelic conversation for a mainstream audience. Collectively, these forums ‎provide Delic Corp. with the opportunity to sell products relating to the psychedelics space, market various events in the psychedelic space, provide leading experts with a medium to publish articles, speak on podcasts, and, more broadly, build a ‎culture of mainstream understanding and appreciation of psychedelics.

Delic Corp.'s three online platforms, The Delic, Reality Sandwich and Delic Radio collectively reach over 100,000 people per month. The ‎company's broad mission is to educate the public about new wellness options available to them and ultimately ‎create space for a diverse demographic to feel empowered and live happier lives. As interest in the ‎sector has grown in recent years, Delic Corp. has seen increases in viewers to ‎the Reality Sandwich and The Delic websites and listeners of the Delic Radio podcast.

*Delic Labs*

Delic Labs was founded by ‎award-winning chemist, Dr. Markus Roggen, and University of British Columbia Professor, Dr. Glenn Sammis, to ‎support the psychedelic industry with high precision chemical analytics and metabolomic ‎identification. Delic Labs is a licensed psilocybin and cannabis research laboratory ‎focused on extraction, analytical testing, and chemical process development and serves as the engine for the Delic platform, conducting research and developing innovative product lines and intellectual property, including psilocybin vaporization technology for future distribution across the company's physical footprint. Current customers include biotech companies, alcohol and tobacco, instrument manufacturers, and cannabis producers.

*KIC*

KIC currently owns and operates two ketamine infusion treatment clinics, one in Phoenix, Arizona and the other in Bakersfield, California.

Under KIC’s business model, treatments consist of six sessions administered by a full-time nurse practitioner over two weeks at $400 per session (PTSD and ‎depression) followed by a booster session, either monthly or every other month thereafter at ‎‎$350/session; or five sessions in a row at $750 per session (higher dosage for pain treatment such as CRPS) ‎followed by monthly booster shot. Retention for ongoing treatment is approximately 75%. Each treatment is 90 ‎minutes long. Normalized, a clinic can administer 120 treatments per month.

Both Medicare and insurance companies provide reimbursement for Ketamine treatments (Phoenix ‎location: 1/3 paid in cash; 1/3 paid through Medicare; 1/3 paid through commercial insurance and ‎Bakersfield location: 45% paid via Medicare; 45% paid via commercial insurance; 10% paid via cash).‎

Significant events up to the date of this MD&A

*Acquisition of KIC*

On June 30, 2021, the Company acquired all of the issued and outstanding securities of KIC from its members in a reverse triangular merger for a purchase price of USD$3,040,312 (the "Purchase Price") paid as follows: (i) USD$2,240,312 in consideration shares issued on the closing date representing 89,130 MVS of the Company (the "Closing Date Payment"); and (ii) USD$800,000 in consideration shares to be issued on the date KIC's Bakersfield, California clinic achieves a net profit in three consecutive months in the twelve months following the closing date, while achieving minimum revenues of USD$125,000 in the same three month period (the "Bakersfield Milestone Payment") plus certain amounts, if any, to be earned by management, pursuant to reaching certain milestones. The Purchase Price was satisfied through the issuance of the number of consideration shares equal in value to the Closing Date Payment amount, issued at a price per share equal to the ten (10) trading day VWAP of such consideration shares on the CSE on the trading day immediately prior to the closing date (representing a price of $0.3114 per share).

Management of KIC will be eligible to earn additional consideration upon reaching certain milestones.

*Acquisition of Delic Labs*

On May 27, 2021, the Company acquired all of the issued and outstanding shares in the capital of Complex Biotech Discovery Ventures Ltd. (“CBDV”). The purchase price was satisfied through the issuance of 10,000,000 SVS in the capital of the Company (the "Consideration Shares"). As per the terms of the acquisition agreement (the “Agreement”) the Consideration Shares were issued at a price equal in value to CAD$7,000,000 (the "Purchase Price") issued at a price per share equal to the higher of: (a) the ten trading day volume weighted average trading price ("VWAP") of the Consideration Shares on the Canadian Securities Exchange (the "CSE") immediately prior to the date of the Agreement, and (b) the maximum discount under the policies of the CSE applicable to the closing price of the Consideration Shares on the CSE on the trading day immediately prior to the closing date. However, the market price of the Company’s SVS on the date of issuance was CAD$0.30 per SVS. Accordingly, the Consideration Shares were valued at CAD$3,000,000 for purposes of the acquisition accounting. The Consideration Shares issued to the sellers of CBDV are subject to certain contractual hold periods. In addition, each of the sellers of CBDV has entered into voting support agreements with a two-year term, pursuant to which they agreed to vote their Consideration Shares as directed by the board of directors of the Company, subject to certain exceptions.

Management of CBDV will be eligible to earn additional consideration upon reaching certain milestones.

Upon closing of the transaction, CBDV changed its name to Delic Labs.

*Homestead Brands*

The Company executed a definitive asset purchase agreement (the "Agreement") to acquire the brand and intellectual property of Homestead ("Homestead"), a legacy counterculture distributor of psychedelic media and creator of one of the first self-contained mushroom grow kits (the "Transaction").

In consideration for acquisition of the Homestead assets, the Company issued Subordinated voting common shares having an aggregate value of $45,564. The Company also granted 108,887 incentive stock options to David Tatelman, the founder of Homestead, with an exercise price of $0.58, exercisable for a period of 3 years in accordance with the terms of the Company's Incentive Stock Option plan.

*COVID-19*

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time.

**SUMMARY OF QUARTERLY RESULTS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Three months ended June 30, 2021** | **Three months ended March 31, 2021** | **Three months ended December 31, 2020** | **Three months ended September 30, 2020** |
| Sales | $ 149,290 | $ - | $ - | $ - |
| Gross profit | $ 130,129 | $ - | $ - | $ - |
| Expenses including non-cash items | $ (1,170,364) | $ (1,050,508) | $ (934,920) | $ (136,476) |
| Income (loss) for the quarter | $ (1,017,836) | $ (1,126,800) | $ (1,997,636) | $ 173,118 |
| Income (loss) per share | $ (0.03) | $ (0.02) | $ (0.04) | $ 0.02 |
| Common shares outstanding | 59,865,526 | 55,502,637 | 55,193,750 | 10,000,000 |
| Total assets | $ 11,691,538 | $ 1,635,052 | $ 2,189,710 | $ 3,514,647 |
| Total long-term liabilities | $ 1,568,058 | $ - | $ - | $ - |
|  |  |  |  |  |
|  | **Three months ended June 30, 2020** | **Three months ended March 31, 2020** | **Three months ended December 31, 2019** | **Three months ended September 30, 2019** |
| Sales | $ - | $ - | $ - | $ - |
| Gross profit | $ - | $ - | $ - | $ - |
| Expenses including non-cash items | $ (71,221) | $ (141,357) | $ (100,634) | $ (90,242) |
| Income (loss) for the quarter | $ (47,235) | $ (95,939) | $ (97,217) | $ (90,242) |
| Income (loss) per share | $ (0.00) | $ (0.01) | $ (0.01) | $ (0.01) |
| Common shares outstanding | 10,000,000 | 10,000,000 | 10,000,000 | 10,000,000 |
| Total assets | $ 515,112 | $ 750,543 | $ 837,878 | $ 691,301 |
| Total long-term liabilities | $ - | $ - | $ - | $ - |

The Company’s expenses and net loss during the quarter ended December 31, 2020 increased significantly from prior quarters due to a listing expense of $1,108,514 being recognized upon completion of the RTO as well as an increase in costs associated with the development of the Company’s overall operations.

*Three months ended June 30, 2021*

During the three months ended June 30, 2021 (“Q2 2021”), the Company reported a loss of $1,017,836. During the three months ended June 30, 2020 (“Q2 2020”), the Company reported a loss of $47,235.

The primary reason for the increase in net loss during the period is due to an increase in overall operations as this is the Company’s first year of operations.

Sales during the period increased to $149,290 in Q2 2021 from $Nil in Q2 2020. Sales and cost of sales consisted of the following:

|  |  |  |
| --- | --- | --- |
|  | Media | Sciences |
| Revenue |  |  |
| U.S. | 30,235 | - |
| Canada | - | 119,055 |
| Total revenue | 30,235 | 119,055 |
| Cost of sales |  |  |
| U.S. | 1,806 | - |
| Canada | - | 17,355 |
| Total cost of sales | 1,806 | 17,355 |

Media revenue was generated through sponsorship and ticket sales for the Company’s upcoming Meet Delic event. Science revenues were generated through project-based revenues in connection with research and development initiatives surrounding psilocybin and cannabis applications.

Total operational expenses were $1,170,364 in Q2 2021, compared to $71,221 in Q2 2020, which consisted of the following:

* Advertising and promotional fees of $381,639 (Q2 2020 - $7,690) incurred in connection with the Meet Delic brand for events and promotional work as well as investor awareness initiatives.
* Management and consulting fees of $294,255 (Q2 2020 - $30,155) consisting of multiple new hires during the period.
* Professional fees of $201,649 (Q2 2020 - $14,722) consisting of legal and audit fees incurred with the special warrant financing, and multiple acquisitions.
* Share-based payments of $165,436 (Q2 2020 - $Nil) incurred in connection with the granting of stock options during the period.

EBITDA for Q2 2021 and 2020 has been calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | **Three months ended June 30, 2021** | **Three months ended June 30, 2020** |
|  | **$** | **$** |
| Net loss | (1,017,836) | (47,235) |
| Depreciation | 1,514 | - |
| Share-based payments | 165,436 | - |
| Foreign exchange | 21,198 | - |
| Tax expense | 38,975 | - |
| EBITDA (Loss) | (790,713) | (47,235) |

*Six months ended June 30, 2021*

During the six months ended June 30, 2021 (“YTD 2021”), the Company reported a loss of $2,144,636. During the six months ended June 30, 2020 (“YTD 2020”), the Company reported a loss of $143,174.

The primary reason for the increase in net loss during the period is due to an increase in overall operations as this is the Company’s first year of operations.

Sales during the period increased to $149,290 in YTD 2021 from $Nil in YTD 2020. Please refer to the table above for a discussion on sales and cost of sales.

Total operational expenses were $2,220,872 in YTD 2021, compared to $212,578 in YTD 2020, which consisted of the following:

* Advertising and promotional fees of $837,377 (YTD 2020 - $89,399) incurred in connection with the Meet Delic brand for events and promotional work as well as investor awareness initiatives.
* Management and consulting fees of $321,889 (YTD 2020 - $49,243) consisting of multiple new hires during the period.
* Professional fees of $283,357 (YTD 2020 - $36,488) consisting of legal and audit fees incurred with the special warrant financing, and multiple acquisitions.
* Share-based payments of $518,516 (YTD 2020 - $Nil) incurred in connection with the granting of stock options during the period.

EBITDA for YTD 2021 and 2020 has been calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | **Six months ended June 30, 2021** | **Six months ended June 30, 2020** |
|  | **$** | **$** |
| Net loss | (2,144,636) | (143,174) |
| Depreciation | 1,514 | - |
| Share-based payments | 518,506 | - |
| Foreign exchange | 95,829 | - |
| Tax expense | 38,975 | - |
| EBITDA (Loss) | (1,489,812) | (143,174) |

**LIQUIDITY & CAPITAL RESOURCES**

As at June 30, 2021, the Company’s capital is composed of shareholders’ equity. The Company’s primary objectives, when managing its capital, are to maintain adequate levels of funding to support operations of the Company and to maintain corporate and administrative functions.

The Company defines capital as cash and equity, consisting of the issued common stock. The capital structure of the Company is managed to provide sufficient funding operating activities. Funds are primarily secured through sales or a combination of equity capital raised by way of private placements and short-term debt.

The Company had cash of $3,555,951 as at June 30, 2021 and $2,082,206 as at December 31, 2020 (“YE 2020”). As at June 30, 2021, the Company has working capital of $2,195,612 (YE 2020 – $2,116,352)

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through revenues or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

The Company is not subject to any externally imposed capital requirements.

If additional funds are required, the Company plans to raise additional capital primarily through the private placement of its equity securities. Under such circumstances, there is no assurance that the Company will be able to obtain further funds required for the Company’s continued working capital requirements.

There were no changes to the Company’s approach to capital management during the period ended June 30, 2021.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off-balance sheet arrangements.

**TRANSACTIONS WITH RELATED PARTIES**

Key management personnel include the members of the Board of Directors and officers of the Company who have the authority and responsibility for planning, directing and controlling the activities of the Company. Amount paid and accrued to directors, officers, and former officers are as follows:

|  |  |  |
| --- | --- | --- |
|  | **Six months ended June 30, 2021** | **Six months ended June 30, 2020** |
|  |  |  |
|  | $ | $ |
| Management compensation |  |  |
| Matt Stang, CEO and Director | 30,000 | - |
| Mathew Lee, CFO | 23,686 | 7,573 |
| Sub-total | 53,686 | 7,573 |
| Share-based payments |  |  |
| Matt Stang, CEO and Director | 16,542 | - |
| Mathew Lee, CFO | 12,796 | - |
| Sashko Despotovski, Director | 12,798 | - |
| Martin Tobias, Director | 12,798 | - |
| Paul Rosen, Director | 12,798 | - |
| Kraig Fox, Director | 12,798 | - |
| Sub-total | 80,530 | - |
| Total | 134,216 | 7,573 |

**PROPOSED TRANSACTIONS**

There are no proposed transactions at this time.

**FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company’s financial instruments consisted of cash, accounts receivable, accounts payable and accrued liabilities, and the CEBA loan. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments. Refer to Note 13 of the Company’s condensed consolidated interim financial statements for further information on the Company’s financial instruments.

**CRITICAL ACCOUNTING ESTIMATES**

Refer to Note 2 of the Company’s condensed consolidated interim financial statements for further information on the Company’s accounting estimates.

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

There was no change in accounting policies for the period ended June 30, 2021.

**DISCLOSURE OF OUTSTANDING SHARE DATA**

**Common Shares**

The Company is authorized to issue the following an unlimited number of common shares with no par value. As of the date of this MD&A, the Company had issued and outstanding 59,865,526 subordinate voting shares, 259,913 multiple voting shares, 5,003,887 stock options, and 12,221,140 warrants.

# **RISK FACTORS**

The Company’s business, operating results and financial condition could be adversely affected by any of the risks outlined below. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems immaterial, may also impair the operations of the Company. If any such risks actually occur, the financial condition, liquidity and results of operations of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected.

An investment in the Company’s Shares is speculative and will be subject to material risks; and investors should not invest in securities of the Company unless they can afford to lose their entire investment.

**Additional Funding Requirements**

Further expansion of the Company’s business, in Canada and internationally, will require additional capital; and the ongoing costs of operations may not generate positive cash flow for the near or long term. Although the Company has adequate funds to operate for the next 12 months, there is no assurance that it will be successful in obtaining the required financing for these or other purposes, including for general working capital. The Company’s ability to secure any required financing to sustain operations will depend in part upon prevailing capital market conditions and business success. There can be no assurance that the Company will be successful in its efforts to secure any additional financing or additional financing on terms satisfactory to management. If additional financing is raised by issuance of additional shares from treasury, control may change and shareholders may suffer dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may be required to scale back its current business plan or cease operating.

**Market Risk for Securities**

There can be no assurance that an active trading market for the Company’s Shares will be sustained. The market price for the Company’s Shares may be subject to wide fluctuations. Factors such as government regulation, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the Company’s securities. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

**Limited Operating History**

The Company is in the early stage of development and has limited history of operations. The Company will be subject to many risks common to start-up enterprises and its viability must be viewed against the background of the risks, expenses and problems frequently encountered by companies in the early stages of development in new and rapidly evolving markets. This includes under-capitalization, cash shortages, limitations with respect to personnel, lack of revenues and financial and other resources. There is no assurance that the Company will develop its business profitably, and the likelihood of success of the Company must be considered in light of the Company’s early stage of operations. There is no assurance that the Company will be successful in achieving a return on shareholders’ investment.

**Uninsured or Uninsurable Risks**

The Company intends to insure its operations in accordance with industry practice. However, given the novelty of the proposed business, such insurance may not be available, uneconomical for the Company, or the nature or level may be insufficient to provide adequate insurance cover. The Company may become subject to liability for hazards against which it cannot insure or against which it may elect not to insure because of high premium costs or for other reasons. The payment of any such liabilities would reduce or eliminate the funds available for operations. Payments of liabilities for which the Company does not carry insurance may have a material adverse effect on its financial position.

**BOARD APPROVAL**

The board of directors of the Company has approved this MD&A.

1. ‎"U.S. Psychedelic Drugs Market – Industry Trends and Forecast to 2027," Data Bridge Market ‎Research, January 2020. ‎ [↑](#footnote-ref-1)