

**TAAT GLOBAL ALTERNATIVES INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEARS ENDED OCTOBER 31, 2022 AND 2021**  
**(Expressed in Canadian dollars)**

## **TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)**

Management's Discussion and Analysis

Years ended October 31, 2022 and 2021

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*Set out below is a review of the activities, results of operations and financial condition of TAAT Global Alternatives Inc. ("TAAT", or the "Company") for the year ended October 31, 2022. The discussion below should be read in conjunction with the Company's condensed interim consolidated financial statements ("financial statements") for the year ended October 31, 2022. Those financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar figures included in the following Management Discussion and Analysis ("MD&A") are quoted in Canadian dollars unless otherwise indicated.*

***This MD&A has been prepared as at March 23, 2023.***

*The Company is listed on the CSE:TAAT, OTCQB: TOBAF and Frankfurt :2TP2*

*Additional information related to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website is [www.taatusa.com](http://www.taatusa.com)*

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### **BACKGROUND AND CORE BUSINESS**

TAAT Global Alternatives Inc. ("TAAT" or the "Company") was incorporated on June 5, 2006 in British Columbia under the Business Corporations Act. The Company develops, manufactures, and distributes alternative product categories such as tobacco, hemp and other emerging CPG segments

The Company's registered address is Suite 810 – 789 West Pender Street, Vancouver BC, V6C 1H2, Canada and its head office is located at 823 Pilot Rd, Las Vegas, NV, United States.

### **CORPORATE DEVELOPMENTS AND SIGNIFICANT TRANSACTIONS AND FACTORS AFFECTING RESULTS OF OPERATIONS**

#### **OUR PRODUCTS AND PROPRIETARY PROCESS**

The Company is innovating nicotine-free and tobacco-free alternatives to traditional cigarettes. The Company utilizes a proprietary, patent-pending process (including a patent-pending refinement technique) with a blend of all-natural ingredients to provide smokers aged 21+ an alternative to traditional cigarettes that does not contain nicotine or tobacco.

In 2020, the Company initially released three primary flavour variants, namely Original, Smooth, and Menthol. -The Company markets its original three products under the TAAT brand and positions its base material as Beyond Tobacco™



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### **CORPORATE DEVELOPMENTS AND SIGNIFICANT TRANSACTIONS AND FACTORS AFFECTING RESULTS OF OPERATIONS (CONTINUED)**

#### **OUR PRODUCTS AND PROPRIETARY PROCESS (CONTINUED)**

The Company has a unique, novel, and patent-pending process for refining the Beyond Tobacco™ base material to impart a scent and taste that resembles tobacco, despite containing no actual tobacco. Through the application of a proprietary blending treatment, the Company is able to completely transform the raw material into a finished product that tastes and smells like tobacco when combusted. This material is referred to as Beyond Tobacco™ (“BT”). Similar to fine-cut tobacco, BT is derived entirely from plant matter, however BT is fundamentally different from fine-cut tobacco in that it has no tobacco content whatsoever. As such, BT contains no nicotine, is non-addictive, and undergoes substantially different processing than fine-cut tobacco. This process forms a significant part of the value of BT and is a closely guarded trade secret. The Company has applied for and anticipates the granting of a US patent on this process which would further protect the company's intellectual property and allow it to apply its IP to other product forms.

#### **MANAGEMENT TEAM UPDATES**

On February 16, 2022, Mr. Tim Corkum resigned as Chief Revenue Officer (“CRO”) of the Company.

On June 20, 2022, Mr. Setti Coscarella resigned as Chief Executive Officer (“CEO”) and Director of the Company and the Company appointed Mr. Michael Saxon as the CEO and Director.

#### **ACQUISITIONS**

On April 20, 2022, TAAT entered into a definitive securities exchange agreement (the “Definitive Agreement”) with ADCO Distributors, Inc. and HLND Holdings, Inc. (together referred to as “ADCO” or the “Target”), and Hayford Cardinal Holdings, Inc., Red Carpet/Hobe Sound, Inc. and Barry Adelman (collectively, the “Vendors”), which were amended on April 27, 2022 and May 13, 2022 (the “Amending Agreements”). ADCO is the parent entity of a convenience and tobacco wholesaler based in the state of Ohio. Pursuant to the Definitive Agreement, TAAT acquired all of the issued and outstanding common stock of ADCO (the “Acquisition”) which results in 100% ownership of ADCO to be held by TAAT.

On May 18, 2022, the Company acquired 100% of the issued and outstanding shares of ADCO. As consideration, the Company issued 3,786,572 common shares with a fair value of \$3,895,040 (US\$3,043,000) (the “Consideration Shares”) and made a cash payment of \$1,182,153 (US\$911,000) for total consideration of \$5,077,193 (US\$3,954,000). In accordance with IFRS 3, the equity consideration on transfer was measured at fair value at the acquisition date, which is the date control was obtained. The fair value of the shares was determined by considering the vesting dates of the tranche of shares, and applying a discount for lack of marketability (“DLOM”) to reflect the share restrictions (see below).

The Consideration Shares are subject to up to a 24-month lock-up. One-third (1/3) of the aggregate Consideration Shares will be released on the fourth (4th), eight (8th), and twelfth (12th) month from the Closing Date, respectively. In the event that either of the principals of ADCO resign from their current positions prior to March 31, 2023, any Consideration Shares that have not been released in accordance with the schedule set out above shall be subject to an extended lock-up expiring 24 months from closing.

In accordance with IFRS 3, the substance of a transaction constitutes a business combination as the business of ADCO meets the definition of a business under the standard. Accordingly, the assets acquired and the liabilities assumed have been recorded at their respective estimated fair values as of the acquisition date. The purchase price is based on management's estimate of fair value of the common shares issued.

In connection with the acquisition of ADCO, the Company issued 112,195 finder common shares with a fair value of \$114,439 and paid cash of \$36,957 to an arm's length party for total finders' fees of \$184,785, which were expensed as transaction cost on the Statement of Loss and Comprehensive Loss in accordance with IFRS 3. The Company recorded a gain on settlement of debt of \$33,389.

During the period from May 18, 2022 to October 31, 2022, the Company recorded a net income of \$2,503,730 in the consolidated statements of loss and comprehensive loss in connection with ADCO.

The addition of ADCO provides several advantages enabling TAAT to refine and accelerate the introduction of its branded products into the non-traditional consumer space. TAAT not only gains greater control over the placement of its product in Ohio, one of the most attractive markets in the U.S., but also gains the capability to test and perfect its packaging, marketing and sales initiatives while receiving invaluable consumer feedback and data from the ADCO sales team and customer base.

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### **ACQUISITIONS (cont'd)**

TAAT, which intends to continue its focus of building upon its broad network of arms-length distributors, sees ADCO as platform to launch additional non-traditional branded products into the consumer marketplace. Many of these products, such as the 'heat-not-burn' initiative and TAAT's non-tobacco, non-hemp offering, are already under development, and it is expected their launch will be greatly assisted and enhanced by the data and market intelligence secured through ADCO.

### **DISTRIBUTION**

The Company is proud to provide an update on the Company's distribution network. As of the date of this MD&A, the Company has made several key partnerships with key distributors to scale the Company's business and increase the overall value of the business for its shareholders. Through a combination of online, in-store, and digital out-of-home campaigns targeted towards smokers aged 21+, the Company has cultivated considerable interest in TAAT® in specific markets where the Company is focusing its marketing and advertising efforts and across the United States in general.

On November 12, 2021, the Company shipped multiple pallets of TAAT® to fill purchase orders from California-based distributors, who each primarily serve retailers in the areas of Los Angeles (population 3.9 million) and San Diego (population 1.4 million)

On November 26, 2021, the Company became an official supplier of one of the largest U.S. wholesale distributors a network of more than 20,000 retail locations in 22 states. On Monday, November 22, 2021, a purchase order for 168 TAAT® countertop displays and over 1,000 cartons of TAAT® for the initial chain-wide placement of the product in Par Mar Stores; who operate numerous points of sale in Ohio, West Virginia, and Pennsylvania including convenience stores in gas stations under national banners.

On December 3, 2021, the Company announced that TAAT® Original, Smooth, and Menthol will be sold in 350 retail stores in the state of Virginia (population 8.5 million, with a 14% cigarette use rate among adults) in addition to its existing stores in Richmond, VA. Following the addition of these 350 new stores in Virginia, the Company is seeking to further expand its base of retailers in the United States.

On December 17, 2021, the Company provided an update that TAAT® is now selling in tobacco retailers across the South London area of the United Kingdom. On July 22, 2022, the Company received its third reorder from its United Kingdom distributor. This purchase is the second order shipped to the U.K. containing V3 of TAAT®.

On January 11, 2022, the Company provided an update based on consolidated reports from its distributors and retail partners in the United States that as of the end of calendar 2021, all three TAAT® varieties are now sold in more than 2,000 retail stores in 31 States.

On January 18, 2022, the Company reported that in the first quarter of 2022, 48% of its overall sales volume in the United States is derived from wholesale reorders made by existing accounts. Through its nationwide network of distribution partners in the United States, TAAT® continuously evaluates its performance in specific markets and has leveraged such insights to drive recurring orders from existing accounts while continuing to add new store locations.

On January 21, 2022, the Company announced its plans to commence in 2022 a targeted in-store activation strategy for national gas station chains in the United States, a key retail segment for the tobacco industry that represents a steadily growing share of TAAT® retailers. By driving in-store conversions in settings such as gas stations through focused initiatives, the Company believes it can more efficiently acquire smokers aged 21+ as users of TAAT® which could lead to long-term repeat purchases of TAAT® products at retail. One of the Company's objectives in 2022 is to further grow its wholesale reorder rate, which is generally propelled by robust in-store sales on a repeat basis.

On March 18, 2022, the Company announced the launching of TAAT® in more than 180 new stores in the Houston, Texas area.

On April 22, 2022, the Company fulfilled purchase orders for an initial supply of TAAT® Original, Smooth, and Menthol for 23 franchised convenience stores that are part of a global convenience chain with over 70,000 stores worldwide and over 9,300 stores in the United States. On June 8, 2022, the Company increased placements to an additional 80 stores.

On April 29, 2022, the Company started selling TAAT® Twos in Par Mar stores in Ohio, Pennsylvania, and West Virginia which are the first TAAT® points of sale in the United States to carry this unique small-format SKU. Each TAAT® Twos contains two sticks of a given TAAT® flavour, and provides an approachable option for adult smokers to sample Beyond Nicotine™ without needing to purchase a full pack. TAAT® Twos can be sold at a relatively desirable profit margin compared to legacy tobacco products.

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### **DISTRIBUTION(CONTINUED)**

On September 12, 2022 the Company began selling TAAT® in select locations of Buc-ee's, a famed gas and convenience chain. The presence of TAAT® in these locations is expected to complement the existing footprint of TAAT® in the Southern region of the United States and accelerate commercialization efforts for the Company.

On September 13, 2022, the Company entered into a representation agreement with B&B Beyond, LLC ("B&B Beyond"). B&B Beyond is currently leveraging its relationships to present TAAT® to the management teams of national/regional convenience store chains, industry associations, and wholesale buying cooperatives which will further accelerate commercialization of TAAT®.

In Q4 2022, the Company formed a wholly owned subsidiary, Beyond Alternative LLC ("Beyond Alternatives") and subsequent to the year-end, the Company formed a new wholly owned subsidiary, Jayvee's Brands LLC. The Company intends to use Beyond Alternatives to begin distribution of other alternative products in growing categories to drive short-term incremental revenues with new revenue streams. In 2023, Beyond Alternatives has commenced production of edibles under the Jayvees brand. The Company will distribute the Jayvees edibles through its existing wholesale distribution infrastructure with ADCO, which the Company acquired during the year.

### **MANUFACTURING AND LOGISTICS**

On February 16, 2022, the Company provided the results of an emission study conducted by Dr. Cindy Orser, the Company's Chief Science Advisor along with a leading national laboratory service. The study compared all three TAAT® varieties (Original, Smooth, and Menthol) to the top two brands of tobacco cigarettes in the United States. As compared to tobacco, TAAT®, known as "Beyond Tobacco™", is made with a proprietary base material which contains no tobacco or nicotine and undergoes a patent-pending refinement process to create a substantially similar user experience to that of smoking tobacco. The advanced formulation of Beyond Tobacco™ was assessed for the presence of key chemical constituents found in tobacco products including nitrosamines, tar, and ammonia. TAAT® products were either found to have none of these chemical constituents or considerably less in the emission studies of mainstream tobacco smoke.

On March 25, 2022, the Company obtained registered trademark status. The Company's trademark applications on the TAAT® brand name have been finalized as "registered" trademarks in eight global markets, including the United States.

On May 13, 2022, the Company filed an expedited patent application in the United States for a refinement process of the Beyond Tobacco™ for TAAT® in which a broader scope of materials containing zero hemp can be utilized to produce a nicotine-free and tobacco-free smoking experience substantially resembling that of a traditional tobacco cigarette, without any residual cannabinoids.

### **MARKETING**

While TAAT is a consumer product that exclusively targets 'adult' smokers, it contains no tobacco and thus has more flexibility in how it markets its products compared to traditional tobacco cigarettes. TAAT believes it has an obligation to market its products in a responsible fashion, and its own internal marketing philosophy is grounded in its goal to not attract 'new' smokers and to exclusively avoid those that are under the legal age.

TAAT leverages many of the marketing platforms as other consumer products. The Company's primary out-of-home channel is 'radio' and the Company's marketing department focuses on working with radio advertising agencies that can provide reasonable assurance that the target audience is over the legal smoking age. We leverage direct marketing by building a database of existing adult smokers, currently at over 150,000, so we can communicate with adult smokers one-to-one through various mediums. We are currently building our experiential platforms where we can engage adult smokers one-to-one, such as the *First Friday* events in Las Vegas that was launched in August 2022. Our social media platforms are age-gated to provide reasonable assurance that we are communicating with adults that are the legal smoking age. Our retail marketing is aimed at helping us get awareness with adult smokers at the point of purchase.

We believe that by combining all of these activities within a defined geographic area where we have a wide distribution of our product in retail stores, we have a greater chance for success in building and maintaining brand awareness. We seek to do this with the ultimate goal of securing the permanent conversion of an adult smoker to TAAT products.

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### **OUTLOOK**

The Company launched TAAT® into the market in 2021. Throughout 2022, the Company made numerous improvements to the product, route to market strategy, marketing initiatives and production.

In late 2021, the Company augmented its Beyond Tobacco™ material with the introduction of “Version 3” to substantially improve the product experience. This allowed the Company to achieve better yield in production, a product that more closely resembles a traditional tobacco cigarette in both taste and more consistency in the final product which is of paramount importance to our consumers. As a result of this, the Company engaged in a replacement strategy throughout Q4 2021, Q1 2022 and Q2 2022 to replace existing TAAT® in the market with new TAAT® so that consumers would have a more consistent experience with the product.

In conjunction with the release of Version 3 in late 2021, the Company made the difficult decision to withdraw all Version 1 and Version 2 of its products from the marketplace. The decision to recall the product from the market had a sizable impact on first and second quarter 2022 sales. However, in the view of management, that decision was necessary as evidenced by the strong consumer sentiment towards Version 3 in the marketplace.

The recall, which had an impact upon sales as well as costs, is now complete and in the view of management positioned the Company for accelerated sales in the last quarter of Fiscal 2022.

Despite certain challenges with interruptions in the global supply chain, the Company is actively working to complete specialized packaging for individual European markets in order to deliver upon its robust European sales pipeline. The Company received registered trademark status in Q2 2022 in eight global markets, including 27 members of the European Union.

In 2022, the Company's focus was to continue to expand the store count and reorder rate in all our accounts in several U.S. States for TAAT® utilizing its internal sales team by driving traffic to brick and mortar locations which was complimented by a strategy with trial initiatives to foster conversion from traditional tobacco to TAAT®. The Company is already experiencing that these strategies lead to increased demand both in current accounts and new accounts within the vicinity of the locations that currently carry TAAT®. The Company's acquisition of ADCO in 2022 has increased its distribution capabilities in the US.

For 2023, the Company has several objectives which include but are not limited to the following:

- Developing deeper penetration in selected US markets
- Building on our learnings in the UK market to penetrate more EU markets
- Evaluating additional manufacturing capabilities to handle future demand
- Patent approval and subsequent granting
- Prepare for potential up listing the Company's securities to a senior exchange
- Expanding our product lines
- Expanding our distribution footprint
- Utilize existing wholesale distribution infrastructure within the US to enhance sale and distribution of products

### **FINANCING AND CORPORATE MATTERS**

*Year ended October 31, 2022*

#### **Stock option exercises:**

During the year ended October 31, 2022, the Company issued 1,190,547 common shares related to exercise of stock options for gross proceeds of \$1,237,637. Upon exercise of the stock options, the Company transferred \$960,343 from reserves to share capital.

As at October 31, 2022, 3,450,000 shares (October 31, 2021 – 6,900,000 shares) for the acquisition of TAAT Intl. remained in escrow.

#### **ADCO acquisition:**

On May 18, 2022, the Company issued 3,786,572 common shares with a fair value of \$3,895,040 pursuant to the acquisition of ADCO.

On June 8, 2022, the Company issued 112,195 common shares with a fair value of \$114,439 and paid cash of \$36,957 to an arm's length party in connection with the acquisition of ADCO for total finders' fees of \$184,785, which was expensed as a transaction cost. The Company recorded a gain on settlement of debt of \$33,389.

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### FINANCING AND CORPORATE MATTERS (CONTINUED)

*Year ended October 31, 2022 (Continued)*

#### **Stock option and RSU issuances:**

On August 14, 2020, the Company granted 1,250,000 stock options to a former Officer of the Company with an exercise price of \$1.00 per option expiring August 14, 2024. The options vest over several periods: 25% vest immediately, 25% vest on June 30, 2021, and 50% vest on December 31, 2021. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$1,096,988 assuming an expected life of 4 years, a risk-free interest rate of 0.33%, an expected dividend rate of 0.00%, and an expected annual volatility of 212%. The share-based payment expense related to the fair value of the options granted was \$381,122 during the year ended October 31, 2022 and \$419,977 during the year ended October 31, 2021. The options are fully vested as at October 31, 2022. During the year ended October 31, 2022, 500,000 of the remaining options were expired without being exercised.

On September 1, 2020, the Company granted 700,000 stock options to a consultant of the Company with an exercise price of \$0.90 per option expiring September 1, 2022. These options vest immediately and have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$297,067 assuming an expected life of 2 years, a risk-free interest rate of 0.27%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$297,067 during the year ended October 31, 2020. During the year ended October 31, 2022, all of the remaining options were cancelled without being exercised.

On September 1, 2020, the Company granted 300,000 stock options to an employee of the Company with an exercise price of \$0.90 per option expiring September 1, 2024. The options vest over several periods: 50% vest on December 31, 2020, and 50% vest on June 30, 2021. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$164,310 assuming an expected life of 3.67 years, a risk-free interest rate of 0.29%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$108,150 during the year ended October 31, 2021 and \$56,160 during the year ended October 31, 2020. During the year ended October 31, 2022, all of the remaining options were cancelled without being exercised.

On September 17, 2020, the Company granted 3,100,000 stock options to consultants of the Company with an exercise price of \$1.19 per option expiring September 17, 2025. The options vest over several periods: 3,088,750 options vest immediately and 11,250 options vest on October 20, 2021. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$2,725,166 assuming an expected life of 5 years, a risk-free interest rate of 0.36%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$8,094 during the year ended October 31, 2021 and \$2,717,072 during the year ended October 31, 2020.

On September 28, 2020, the Company granted 150,000 stock options to a consultant of the Company with an exercise price of \$2.00 per option expiring September 28, 2022. The options vest over several periods: 100,000 options vest immediately and 50,000 vest on January 29, 2021. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$156,510 assuming an expected life of 2 years, a risk-free interest rate of 0.25%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$39,229 during the year ended October 31, 2021 and \$117,281 during the year ended October 31, 2020. During the year ended October 31, 2022, all of the remaining options were cancelled without being exercised.

On October 21, 2020, the Company granted 77,500 stock options to a consultant of the Company with an exercise price of \$2.75 per option expiring October 21, 2022. The options vest over several periods: 50% of the options vest immediately and 50% vest on October 21, 2021. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$108,408 assuming an expected life of 2 years, a risk-free interest rate of 0.23%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$53,112 during the year ended October 31, 2021 and \$55,296 during the year ended October 31, 2020. During the year ended October 31, 2022, all of the remaining options were cancelled without being exercised.

On December 2, 2020, the Company granted 100,000 stock options to a consultant of the Company with an exercise price of \$2.93 per option expiring December 2, 2022. The options vest over several periods: 50% of the options vest immediately and 50% vest on February 1, 2021. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$152,886 assuming an expected life of 2 years, a risk-free interest rate of 0.27%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$152,886 during the year ended October 31, 2021. During the year ended October 31, 2022, all of the remaining options were cancelled without being exercised.

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### FINANCING AND CORPORATE MATTERS (CONTINUED)

*Year ended October 31, 2022 (Continued)*

#### **Stock option and RSU issuances (continued):**

On December 2, 2020, the Company granted 900,000 stock options to consultants and a former Officer of the Company with an exercise price of \$2.93 per option expiring December 2, 2024. The options vest over several periods: 200,000 of the options vest immediately, 325,000 stock options vest on June 30, 2021, and 375,000 stock options vest on December 30, 2021. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$2,381,728 assuming an expected life of 4 years, a risk-free interest rate of 0.41%, an expected dividend rate of 0.00%, and an expected annual volatility of 166%. The share-based payment expense related to the fair value of the options granted was \$689,180 during the year ended October 31, 2022 and \$1,692,548 during the year ended October 31, 2021. The options are fully vested as at October 31, 2022. During the year ended October 31, 2022, 250,000 of the remaining options were cancelled without being exercised.

On December 16, 2020, the Company granted 250,000 RSUs to a former Officer of the Company. 125,000 RSUs vest on August 31, 2021 and 125,000 RSUs vest on August 31, 2022. The RSUs expire five years from the vesting date. The Company recognized \$195,185 share-based payments during the year ended October 31, 2022 and \$604,816 as share-based payments for the RSUs during the year ended October 31, 2021. During the year ended October 31, 2022, all of the remaining RSUs were cancelled without being converted.

On December 30, 2020, the Company granted 955,000 stock options to consultants of the Company with an exercise price of \$2.36 per option expiring December 30, 2025. The options vest immediately. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$1,665,870 assuming an expected life of 5 years, a risk-free interest rate of 0.41%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$1,665,870 during the year ended October 31, 2021. During the year ended October 31, 2022, 630,000 of the remaining options were cancelled without being exercised.

On April 15, 2021, the Company granted 3,000,000 stock options to consultants and employees of the Company with an exercise price of \$2.98 per option expiring April 15, 2026. The options vest immediately. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$6,636,407 assuming an expected life of 5 years, a risk-free interest rate of 0.90%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$6,636,407 during the year ended October 31, 2021. During the year ended October 31, 2022, 2,225,000 of the remaining options were cancelled without being exercised.

On April 15, 2021, the Company granted 1,000,000 stock options to a consultant with an exercise price of \$2.98 per option expiring April 15, 2023. The options vest over several periods: 250,000 of the options vest on the earlier of the first distribution agreement made with a minimum of 100,000 Euros signed by the Company or six months from the grant date, 250,000 stock options vest six months from the initial vesting date, 250,000 options vest twelve months from the initial vesting date and 250,000 vest eighteen months from the initial vesting date. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$1,967,520 assuming an expected life of 1.52 years, a risk-free interest rate of 0.24%, an expected dividend rate of 0.00%, and an expected annual volatility of 168%. The share-based payment expense related to the fair value of the options granted was \$1,214,503 during the year ended October 31, 2022 and \$753,017 during the year ended October 31, 2021.

On July 8, 2021, the Company granted 100,000 stock options to a consultant of the Company with an exercise price of \$3.03 per option expiring July 8, 2026. The options vest over 12 months. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$309,139 assuming an expected life of 5 years, a risk-free interest rate of 0.89%, an expected dividend rate of 0.00%, and an expected annual volatility of 159%. The share-based payment expense related to the fair value of the options granted was \$137,392 during the year ended October 31, 2022 and \$171,746 during the year ended October 31, 2021. During the year ended October 31, 2022, all of the remaining options were cancelled without being exercised.

On July 14, 2021, the Company granted 250,000 stock options to a consultant of the Company with an exercise price of \$3.05 per option expiring July 14, 2026. The options vest immediately. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$566,074 assuming an expected life of 5 years, a risk-free interest rate of 0.91%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%. The share-based payment expense related to the fair value of the options granted was \$566,074 during the year ended October 31, 2021. During the year ended October 31, 2022, all of the remaining options were cancelled without being exercised.

On December 13, 2021, the Company granted 2,000,000 RSUs to a former Officer of the Company. 1,000,000 RSUs vested immediately 2021 and 1,000,000 RSUs vest on July 19, 2022. The RSUs expire five years from the grant date. The Company recognized \$5,960,000 share-based payments during the year ended October 31, 2022. The RSUs are fully vested as at October 31, 2022.

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### FINANCING AND CORPORATE MATTERS (CONTINUED)

Year ended October 31, 2022 (Continued)

#### Stock option and RSU issuances (continued):

On June 20, 2022, the Company granted 6,857,500 stock options to consultants, directors and officers. The options have an exercise price of \$0.85 per option expiring June 20, 2027. 5,357,500 of the options vested immediately, and the remaining 1,500,000 options vest quarterly over a period of two years from issuance, starting on the 91st day of grant. These options have a fair value, calculated using the Black-Scholes Option Pricing Model, of \$5,441,514 assuming an expected life of 5 years, a risk-free interest rate of 3.35%, an expected dividend rate of 0.00%, and an expected annual volatility of 143%. The share-based payment expense related to the fair value of the options granted was \$4,850,594 during the year ended October 31, 2022.

On June 20, 2022, the Company granted 1,000,000 RSUs to an Officer of the Company, which will vest quarterly over a period of two years from issuance, starting on the 91st day of grant and shall entitle the Officer the ability to acquire one share of the Company per RSU. The RSUs were priced at \$0.88 based on the closing price of the shares on grant date and expire five years from the vesting date. The Company recognized \$387,101 share-based payments during the year ended October 31, 2022.

### LIQUIDITY AND CAPITAL RESOURCES

At October 31, 2022, the Company had working capital of \$4,652,187, including cash of \$676,813 as compared to a working capital of \$12,238,320, including cash of \$11,810,863 as at October 31, 2021.

The Company's ability to fund operational activities, including promotional activities, are contingent upon its ability to raise sufficient financing both in the short and long-term. There are no guarantees that additional sources of funding will be available to the Company and if and when the Company will be profitable; however, management is committed to pursuing all possible sources of financing and other resources in order to execute its business plan including new equity issues and other forms of financing.

#### Cash flows for the period ended October 31, 2022 compared to 2021

Cash used in operating activities was \$9,394,485 (October 31, 2021 - \$20,828,620). In the comparative period, the Company had primarily spent funds on management and consulting fees, marketing and shareholder communications, product marketing, and salaries and wages. In the comparative period, the Company had recently launched its non-tobacco related products. In the current period, the Company has decreased its product and marketing expenditure for its products and has focused on streamlining operations which led to an overall decrease in cash expenditure, period over period.

Cash used in investing activities was \$1,741,102 (October 31, 2021 - \$658,492) increased since the prior period. In the prior period, the Company advanced funds to a third party, paid consideration for prior year acquisitions and incurred expenditures on property and equipment. In the current period, the Company purchased property and equipment, acquired cash on acquisition of ADCO and also paid acquisition and transaction costs related to the ADCO acquisition. The increase in cash used is attributed mainly to the acquisition costs.

Cash inflows from financing activities was \$140,706 (October 31, 2021 - \$21,371,757). In the current period, the Company received cash from option exercises of \$1,237,637 (October 31, 2021 - \$1,416,544) and warrant exercises of \$Nil (October 31, 2021 - \$10,875,695). In the current period, the Company did not receive any proceeds from warrant proceeds. The funds received in the current period were offset by lease liability payments of \$530,197 (October 31, 2021 - \$420,481) and net repayments of notes payables of \$566,734 (October 31, 2021 - \$Nil). Finally, in the current period the Company received cash of \$Nil for issuance of common shares (October 31, 2021 - \$9,499,999) as the Company did not have any private placements during the year.

### SELECTED FINANCIAL INFORMATION

A summary of selected annual financial information for the last three fiscal years is as follows, as expressed in Canadian dollars, and in accordance with IFRS:

	October 31, 2022	October 31, 2021	October 31, 2020
	\$	\$	\$
Total assets	18,585,682	21,614,793	14,601,113
Total long-term financial liabilities	3,759,348	3,828,314	175,062
Total revenues	42,535,944	2,560,721	171,192
Net income (loss)	(24,633,336)	(33,363,099)	(11,176,653)
Loss per share, basic and diluted	(0.24)	(0.35)	(0.19)

**TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)**

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**SELECTED FINANCIAL INFORMATION****TAAT Global Alternatives Inc.****CONSOLIDATED STATEMENTS OF LOSS AND OTHER COMPREHENSIVE LOSS****(Expressed in Canadian Dollars)**

For the years ended	October 31, 2022 \$	October 31, 2021 \$
<b>REVENUE</b>		
Sales	42,535,944	2,560,721
Cost of goods sold	(38,794,122)	(1,655,360)
Gross profit	3,741,822	905,361
<b>EXPENSES</b>		
Accounting and legal	708,306	711,208
Accretion and interest expense	226,470	145,699
Amortization	1,560,896	583,462
Bad debt expense	279,003	-
Filing and regulatory	135,245	112,674
Foreign exchange (gain) loss	(1,421,012)	278,621
Management and consulting	2,008,448	2,508,873
Office, rent and administrative	2,019,414	790,571
Other operating costs	94,396	-
Investor relations and shareholder communication	2,186,577	5,133,808
Product marketing	2,083,805	8,109,634
Research and development (recoveries)	238,269	505,961
Share-based payments	7,272,791	12,267,111
Share-based payments – RSU	6,542,286	924,816
Travel	246,987	337,488
Transaction cost	184,785	-
Write-off of inventory	679,315	85,003
Write-off of property, plant and equipment	79,436	-
Salaries and wages	2,737,317	1,774,202
	(27,862,734)	(34,269,131)
<b>Loss for the year</b>	<b>(24,120,912)</b>	<b>(33,363,770)</b>
<b>Other items</b>		
Interest income	-	671
Other income	156,731	-
Gain on settlement of debt	33,389	-
Gain on lease forgiveness	371,351	-
Impairment	(1,116,074)	-
Gain on extinguishment of decommissioning provision	79,000	-
Loss on termination of lease	(36,821)	-
<b>Total other income (loss)</b>	<b>(512,424)</b>	<b>671</b>
<b>Loss before income taxes</b>	<b>(24,633,336)</b>	<b>(33,363,099)</b>
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
<b>Net loss</b>	<b>(24,633,336)</b>	<b>(33,363,099)</b>
<b>OTHER COMPREHENSIVE LOSS</b>		
<b>Item that may be reclassified subsequently to profit or loss</b>		
Foreign exchange gain (loss) on translating foreign operations	(557,965)	105,821
<b>Comprehensive loss for the year</b>	<b>(25,191,301)</b>	<b>(33,257,278)</b>

## TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)

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### SELECTED FINANCIAL INFORMATION (CONTINUED)

#### Results of Operations for the twelve-months ended October 31, 2022 compared to the twelve-months ended October 31, 2021 ("2021")

The net loss for the period decreased by \$8,729,763 for the period ended October 31, 2022 from \$33,363,099 to \$24,633,336. This decrease in net loss is primarily due to decreased investor relations of \$2,186,577 (2021 - \$5,133,808) and product marketing costs of \$2,083,805 (October 31, 2021 - \$8,109,634) and less stock options and RSU being issued during the period. In the comparative period, the Company increased its efforts to promote its product, which resulted in significant increases in product marketing and shareholder communication expenditures.

- Management and consulting expenses decreased to \$2,008,448 for the period ended October 31, 2022 (2021 - \$2,508,873) as the Company hired consultants to assist with the expansion of the business in the prior year. In the prior year, the Company incurred expenditures relating to its change in business model to become a consumer products company from the acquisition TAAT Intl. Please see table below for a breakdown of material consulting expenditures.
- Office, rent, and administration increased to \$2,019,414 for the period ended October 31, 2022 (2021 - \$790,571). During the period ended October 31, 2022, the Company acquired ADCO, a distribution Company operating in Ohio and incurred various expenditures in connection with this acquisition. The increase reflects the expansion of the Company's operations.
- Accounting and legal expenses decreased to \$708,306 for the period ended October 31, 2022 (2021 - \$711,208). In the prior year comparative period, the Company incurred increased legal and accounting fees associated with developing and managing its tobacco-free combustible products, and increased staffing in its finance departments in Canada and the United States. The two period are comparable.
- Investor relations and shareholder communication decreased to \$2,186,577 (2021 - \$5,133,808) as a result of the Company's efforts in the prior year to promote investor awareness of the activities that occurred during the period. The higher expenditures in the prior year reflects to the Company's expansion in U.S and globally, as 2021 was the Company's first full year of operations after launching TAAT® at retail for the first time in December 2020.
- Product marketing costs decreased to \$2,083,805 (2021 - \$8,109,634) as the Company began to commercialize its flagship TAAT products into the US and Europe in Q4 2021. Product marketing is and will continue to be an important function for the company as it looks to commercialize a consumer-packaged good such as TAAT®.
- Research and development of \$238,269 for the period ended October 31, 2022 (2021 - \$505,961) is related to the Company's development of its non-tobacco based smokable products and flavorings.
- Salaries and wages increased to \$2,737,317 for the period ended October 31, 2022 (2021 - \$1,774,202) due to the overall increase in the Company's operations since the comparative period.
- Share-based payments of \$7,272,791 (2021 - \$12,267,111) for the period ended October 31, 2022 is related to the stock options granted to Directors, Officers and consultants of the Company to assist with the Company's operations.
- Share-based payments for Restricted Share Units of \$6,542,286 (2021 - \$924,816) for the period ended October 31, 2022 is related to the Restricted Share Units granted to the CEO, former CRO and former CEO. In the prior year, Restricted Share Units were granted to the former CRO and an employee of the Company.
- Accretion and interest expense of \$226,470 (2021 - \$145,699) is primarily related to costs of the lease liabilities. In the prior year, accretion and interest also included the payment the remaining consideration of the prior year acquisitions of TrueToke and TAAT Intl. During the year ended October 31, 2021, the Company entered into two additional lease agreements which resulted in increased interest expenses on lease liabilities and during the period ended October 31, 2022 the Company terminated one lease and entered into two new lease agreements.
- Amortization expense of \$1,560,896 (2021 - \$583,462) for the period ended October 31, 2022 relates to the amortization of the right of use lease asset and property and equipment acquired from accretive business combinations. During the year ended October 31, 2021, the Company entered into two additional leases, and the amortization for the right of use assets are recorded in the amortization expense and during the period ended October 31, 2022 the Company terminated one lease and entered into two new lease agreements.
- Revenue of \$42,535,944 (2021 - \$2,560,721) and cost of sales of \$38,794,122 (2021 - \$1,655,360) for the period ended October 31, 2022 is related to sales of tobacco and non-tobacco product sales. The significant increase is attributed to the acquisition of ADCO during the period ended October 31, 2022.
- Other income of \$156,731 (2021 - \$Nil) was received as a reimbursement for furniture as agreed upon with the landlord and miscellaneous finance charges charged to customers for late payments.
- Gain on lease forgiveness of \$371,351 (2021 - \$Nil) is a result of a reduction in lease payments as agreed upon with the lessor during the period.
- Gain on extinguishment of decommissioning provision of \$79,000 (2021 - \$Nil) was recorded relating to provisions for mineral properties accrued for the Company's previous operations in prior years.
- Loss on termination of lease of \$36,821 (2021 - \$Nil) was recorded as a result of the termination of a lease during the period ended October 31, 2022.
- Transaction costs of \$184,785 (2021: \$Nil) relate to the costs paid to a third party in relation to the ADCO acquisition.

**TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)**

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**SELECTED FINANCIAL INFORMATION (CONTINUED)****Results of Operations for the twelve-months ended October 31, 2022 compared to the twelve-months ended October 31, 2021 ("2021") (Continued)**

- A gain on settlement of debt of \$33,389 (2021: \$Nil) relates to a gain on the transaction costs to a third party in relation to the ADCO acquisition.

**Results of Operations for the three-months ended October 31, 2022 compared to the three-months ended October 31, 2021 ("Q4 2021")**

The net loss for the three-month period ended October 31, 2022 decreased from \$8,080,257 to \$7,943,011. The two period are comparable, however in Q4 2022 the revenues reflect the revenues earned by ADCO which explains the significant increase in revenues.

Below is a break-down of the various consulting fees incurred by the Company:

	Year ended October 31	
	2022	2021
	\$	\$
Management consulting fees	680,489	635,725
Advisory and business development consulting fees	725,091	1,554,284
Professional fees, accounting	145,354	121,691
Professional fees, legal	-	18,857
Sales consulting	457,514	178,316
<b>Total</b>	<b>2,008,448</b>	<b>2,508,873</b>

**Summary of Quarterly results**

	2022				2021			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenues	24,077,475	17,473,223	515,464	469,782	398,093	1,305,358	691,484	165,786
Net loss	(6,657,710)	(7,286,837)	(4,081,299)	(7,165,455)	(8,203,952)	(7,903,563)	(11,339,466)	(5,810,297)
Basic loss per share	(0.06)	(0.07)	(0.04)	(0.07)	(0.08)	(0.07)	(0.12)	(0.06)
Diluted net loss per share	(0.06)	(0.07)	(0.04)	(0.07)	(0.08)	(0.07)	(0.12)	(0.06)

The fluctuation of net loss and profit throughout the different quarters is a result of a variety of factors related to development activities. The overall net loss in 2021 is due to an expansion of operations as a result of acquisition of ADCO in fiscal year 2021. The Company incurred higher administration, legal, and research and development costs in 2021 as a result of the business expansion and focus on promotion of its products. The large increase in net losses in Q1-Q4 2021 are due to share-based payments related to stock options and RSUs granted to certain consultants, advisors, and, impairment expense, and management and consulting fees. In addition to share-based payments, differences noted for net loss from quarter to quarter primarily relate to investor relationship costs, and management and consulting fees.

During the Q3 2022, the Company's revenues grew substantially between May 18, 2022 to October 31, 2022 due to the acquisition of ADCO, a tobacco distributor based in Canton, Ohio and was established in 1960. The Company recognized a gross profit of \$3,741,822 from its consolidated operations in 2022. During Q3 2022, the Company issued 6,857,500 stock options, which contributed the overall net loss during Q3 2022. In Q4 2022, the Company incurred additional share-based payments relating to the vesting of the stock options and RSUs, and recorded impairment on intangible assets.

## TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)

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### REVENUE AND COST OF SALES ANALYSIS

Year ended October 31,	2022 \$	2021 \$
Sales	42,535,944	2,560,721
Cost of goods sold	(38,794,122)	(1,655,360)
Gross profit	3,741,822	905,361

- The Company's sales include sale of tobacco and non-tobacco products.
- Cost of goods sold include all expenditures related to the sale and distribution of the Company's products. This includes ingredients and manufacturing costs, as well as cost of purchasing the products.
- During the year ended October 31, 2022, the Company had sales of \$37,881,582 for tobacco products and \$4,654,362 for non-tobacco products.
- Overall, the Company saw an increase in revenue and cost of goods sold, resulting in decreased gross margin percentage to 9% (October 31, 2021 – 35%). The decrease relates to the Company's acquisition of ADCO during 2022. In the prior year, all sales were made by TAAT International LLC, whereas in 2022, ADCO contributed over 96% of the revenue. The Company continues to look for ways to increase sales and decrease costs.

### OUTSTANDING SHARE DATA

At the date of this report the Company has 108,701,655 issued and outstanding common shares, 16,756,119 outstanding stock options, 1,000,000 restricted share units and 833,333 outstanding warrants.

On November 4, 2022, the Company issued 175,000 common shares with a fair value of \$75,740 and \$75,000 in cash payments to settle debt with a former related party of \$105,000.

On November 18, 2022, the Company granted 250,000 stock options to a consultant of the Company with an exercise price of \$0.57 per option expiring November 18, 2027. The options vest 100% two years from the date of grant.

Subsequent to the year-end, 2,000,000 RSUs with a fair value of \$5,960,000 were converted into 2,000,000 common shares of the Company.

### OFF STATEMENT OF FINANCIAL POSITION ARRANGEMENTS

At the date of this report, the Company had no material off statement of financial position arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

### RELATED PARTY TRANSACTIONS

The Directors and Executive Officers of the Company are as follows:

Michael Saxon	CEO
Joel Dumaresq	Chief Financial Officer ("CFO") and Director, Former CEO
John Cumming	Director
Joe Deighan	Director
Peter Nguyen	Director
John Martin	Director

**TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)**

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**RELATED PARTY TRANSACTIONS (CONTINUED)**

Key management personnel are comprised of the CEO, CRO, CFO, and Directors of the Company. The remuneration of the key management personnel is as follows:

	October 31, 2022	October 31, 2021
	\$	\$
Salaries – Former CEO and former CRO	148,125	365,000
Director's fees	15,000	-
Management fees – former CFO	-	82,500
Management fees – CFO	-	247,500
Share-based payments to the CEO	1,554,214	-
Share-based payments to Directors	229,887	55,303
Share-based payments to the former CEO	6,341,122	419,977
Share-based payments to the former CRO	654,638	1,304,313
	<u>8,942,986</u>	<u>2,474,593</u>

The Company incurred the following transactions with companies that are controlled or managed by Directors of the Company:

	October 31, 2022	October 31, 2021
	\$	\$
Office expenses to a company controlled by the CFO	36,000	36,000
Consulting fees to a company controlled by a director	-	105,825
Consulting fees to a company controlled by the CEO	186,241	-
Consulting fees to a company controlled by the CFO	90,000	75,000
	<u>312,241</u>	<u>216,825</u>

**Balances at period end**

As at October 31, 2022, \$379,303 (October 31, 2021 - \$507,256) is due to related parties. All balances are unsecured, non-interest bearing and are due on demand.

**SIGNIFICANT ESTIMATES AND ASSUMPTIONS**

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of net assets, liabilities, and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the amortization of equipment valuation of inventory, impairment of property and equipment, intangible assets and goodwill, business combination vs asset acquisition, provision of income taxes, share based compensation, going concern assumption, determination of the Company and its subsidiaries' functional currency, right of use assets and lease liability, accounts receivable and decommissioning liability. Actual results may differ from those estimates and judgments.

**Financial Instruments**

Cash and cash equivalents are carried at fair value using a level 1 fair value measurement. The carrying value of accounts payable and accrued liabilities, and notes payable approximate their fair value because of the short-term nature of these instruments. The receivables, prepaid expenses, consideration payable and lease liability are classified as level 3.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

## **TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)**

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### **SIGNIFICANT ESTIMATES AND ASSUMPTIONS (Continued)**

#### **Financial risk factors**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements.

As at October 31, 2022, the Company had a cash balance of \$676,813 (October 31, 2021 - \$11,934,596) to settle current liabilities of \$6,029,783 (October 31, 2021 - \$2,860,819). The Company may need additional capital in the future to support its recent change of business model to non-tobacco combustible products and cannabis accessories. The Company's future revenues, if any, are expected to be from the sale of tobacco and non-tobacco products.

##### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions. Receivables consist mainly of the commodity tax receivable and loan receivable. The Company has been successful in recovering receivables and believes credit risk with respect to receivables to be insignificant. As at October 31, 2022, trade receivables of \$1,154,252 (October 31, 2021 - \$1,733,899) were due from one customer. During the year ended October 31, 2022, 33% of sales were to two customers (year ended October 31, 2021, 69% of sales were to one customer).

##### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

##### a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at October 31, 2022, the Company does not have any short-term deposits.

##### b) Foreign currency risk

The majority of the Company's business is conducted in United States dollars. As such, the Company is exposed to foreign currency risk in fluctuations among the Canadian dollar and the US dollar. Fluctuations in the exchange rate among the Canadian dollar and the US dollar may have a material adverse effect on the Company's business and financial condition. Fluctuations do not have a significant impact on operating results.

### **RISK FACTORS**

Prior to making an investment decision, investors should consider the investment risks set out below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The directors of the Company consider the risks set out below to be the most significant to potential investors in the Company, but are not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the Directors are currently unaware, or which they consider not to be material in relation to the Group's business, actually occur, the Group's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline and investors may stand to lose all or part of their investment.

## **TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)**

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### **SIGNIFICANT ESTIMATES AND ASSUMPTIONS (CONTINUED)**

#### **RISK FACTORS (Continued)**

##### *Regulatory Risks*

Some of the proposed activities of the Company will be subject to regulation by governmental authorities, which may include, but are not limited to the various state departments of agriculture, U.S. Food and Drug Administration, USDA, and/or Drug Enforcement Administration. The Company's business objectives are, in part, contingent upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the cultivation and sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to cultivate or sell industrial hemp. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of industrial hemp, or more stringent implementation thereof, could have a substantial adverse impact on the Company.

##### *Limited Operating History*

TAAT was founded in early 2019 and has generated minimal revenue. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, 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.

##### *Volatile Stock Price*

The stock price of the Issuer, post TAAT International Acquisition, is expected to be highly volatile and could be drastically affected by governmental and regulatory regimes and community support for the industrial hemp industry. The Issuer cannot predict the results of its operations expected to take place in the future. The results of these activities will inevitably affect the Company's decisions related to future operations and will likely trigger major changes in the trading price of the Company's Shares.

##### *Risks Inherent in an Agricultural Business*

The Company's business may, in the future, involve the growing of industrial hemp, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although such growing for the Company is expected to be completed by experienced farmers, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

##### *Reliance on Management*

Another risk associated with the cultivation and sale of industrial hemp is the loss of important staff members. The Company is currently in good standing with all high-level employees and believes that with well-managed practices it will remain in good standing. The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results, or financial condition.

##### *Insurance and Uninsured Risks*

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes, and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses, and possible legal liability. Although the Company maintains and intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

## **TAAT Global Alternatives Inc. (formerly TAAT LIFESTYLE & WELLNESS LTD.)**

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### **SIGNIFICANT ESTIMATES AND ASSUMPTIONS (CONTINUED)**

#### **RISK FACTORS (Continued)**

##### *The Company will be an Entrant Engaging in a New Industry*

The non-tobacco cigarette industry is fairly new. There can be no assurance that an active and liquid market for the Issuer's Shares will develop and shareholders may find it difficult to resell their Shares. Accordingly, no assurance can be given that the Issuer will be successful in the long term.

##### *Difficulty to Forecast*

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the industrial hemp industry in the USA. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

##### *Management of Growth*

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

##### *Internal Controls*

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Company's Shares.

##### *Need for Additional Financing and Possible Effects of Dilution*

The Issuer may issue equity securities to finance its activities, including future acquisitions. If the Issuer were to issue additional Shares following the TAAT International Acquisition, existing holders of such Shares may experience dilution in their holdings. Moreover, when the Issuer's intention to issue additional equity securities becomes publicly known, the Issuer's share price may be adversely affected.

##### *Litigation*

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be finalized against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

##### *Unfavourable Publicity or Consumer Perception*

Any adverse or negative publicity, scientific research, limiting regulations, medical opinion, and public opinion relating to the consumption of non-tobacco combustible products and CBD may have a material adverse effect on the Company's operational results, consumer base, and financial results.

##### *Fluctuating Prices of Raw Materials*

The Company's revenues, if any, are expected to be derived largely from the production, sale, and distribution of processed hemp biomass. The Company purchases hemp from farmers at market prices at the time of harvest. Changes in the price for processed biomass between the purchase from farmers and sale to customers cannot be predicted with any level of certainty.

##### *Facility Expansion*

The overall success of the Company is partially dependent on the ability of the Company to expand its processing facility. The development or construction of such facilities is subject to various potential problems and uncertainties, and may be delayed or adversely affected by a number of factors beyond the Company's control, including the failure to obtain regulatory approvals, permits, delays in the delivery or installation of equipment by suppliers, difficulties in integrating new equipment with existing facilities, shortages in materials or labor, defects in design or construction, diversion of management resources, or insufficient funding or other resource constraints. Moreover, actual costs for construction may exceed the Company's budgets. As a result of construction delays, cost overruns, changes in market circumstances or other factors, the Company may not be able to achieve the intended economic benefits from the construction of the new facility, which in turn may materially and adversely affect its business, prospects, financial condition, and results of operations.

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### **SIGNIFICANT ESTIMATES AND ASSUMPTIONS (CONTINUED)**

#### **RISK FACTORS (CONTINUED)**

##### *Global Economy Risk*

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. The Issuer will be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, the Issuer is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Issuer's ability to raise equity or obtain loans and other credit facilities in the future and on terms favourable to the Issuer and its management. If uncertain market conditions persist, the Issuer's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's operations, and the trading price of the Issuer's Shares on the CSE.

*The Issuer could be deemed a passive foreign investment company which could have negative consequences for U.S. investors.*

Depending upon the composition of the Issuer's gross income or its assets, the Issuer could be classified as a passive foreign investment company ("PFIC") under the United States tax code. If the Issuer is declared a PFIC, then owners of the Common shares who are U.S. taxpayers generally will be required to treat any "excess distribution" received on their Common shares, or any gain realized upon a disposition of Common shares, as ordinary income and to pay an interest charge on a portion of such distribution or gain, unless the taxpayer makes a qualified electing fund ("QEF") election or a mark-to-market election with respect to the Common shares. A U.S. taxpayer who makes a QEF election generally must report on a current basis its share of the Issuer's net capital gain and ordinary earnings for any year in which the Issuer is classified as a PFIC, whether or not the Issuer distributes any amounts to its shareholders. U.S. investors should consult with their tax advisors for advice as to the U.S. tax consequences of an investment in the Common shares.

#### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

Additional disclosures concerning TAAT's expenses are provided in the Company's statement of comprehensive loss and note disclosures contained in its financial statements for the period ended October 31, 2022. These statements are available on the TAAT website – [www.taatglobal.com](http://www.taatglobal.com) and its SEDAR profile, which can be accessed through [www.sedar.com](http://www.sedar.com).

#### **Dividends**

The Company has no dividend record and is unlikely to pay any dividends in the foreseeable future as it intends to employ available funds for business activities. Any future determination to pay dividends will be at the discretion of the board of directors and will depend on the Company's financial condition, results of operations, capital requirements and such other factors as the board of directors deem relevant.

#### **Management's Responsibility for Financial Statements**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying Financial Statements.

In contrast to the certificate required under National Instrument 52-109 Certificate of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109, in particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

(i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with the Company's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

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### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE (Continued)**

#### **Nature of the Securities**

The purchase of the Company's securities involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks. The Company's securities should not be purchased by persons who cannot afford the possibility of the loss of their entire investment. Furthermore, an investment in the Company's securities should not constitute a major portion of an investor's portfolio.

#### **Proposed Transactions**

On December 14, 2022 and amended on March 1, 2023, the Company entered into an asset purchase agreement with Boksborg Ventures Inc. ("Boksborg"), where the Company will acquire assets related to the Boksborg's Break Free™ mobile application and \$3,600,000 working capital (the "Boksborg Acquisition") from Boksborg (the "Boksborg Transaction") and as consideration for the Boksborg Acquisition, the Company will issue an aggregate of 17,000,000 common shares (the "Boksborg Consideration Shares") with a portion of which is allocated to the \$3,600,000 working capital purchased.

The Boksborg Consideration Shares are comprised of:

1. Cash Value Consideration Shares – Of the Boksborg Consideration Shares, the number of Cash Value Consideration Shares will be equal to the quotient resulting from dividing the dividend (\$3.6million) by the divisor, being the greater of (a) \$0.05 and (b) the closing market price of the Company's shares on the exchange on the trading day prior to the dissemination of a news release disclosing the closing of the Boksborg Transaction. The Cash Value Consideration Shares are subject to a four (4) month and one (1) day hold period;
2. Milestone Consideration Shares – The Boksborg Consideration Shares shall equal to the Boksborg Consideration Shares less the Cash Value Consideration Shares. The Milestone Consideration Shares are subject to escrow as follows:
  - a. 1/3 of Milestone Consideration Shares (Milestone 1): The later of (i) 6 months from the closing date of the Boksborg Transaction and (ii) the launch of the BreakFree mobile application of a minimum of 1,000 downloads on Apple or Google App stores. If Milestone 1 is not achieved within 36 months from closing, the shares allocated will be returned to the Company's treasury for cancellation;
  - b. 1/3 of Milestone Consideration Shares (Milestone 2): The later of (i) 6 months from the closing date of the Boksborg Transaction and (ii) the receipt of a minimum of 1 out of 3 US patents surrounding the intellectual property. If Milestone 2 is not achieved within 36 months from closing, the shares allocated will be returned to the Company's treasury for cancellation; and
  - c. 1/3 of Milestone Consideration Shares (Milestone 3): The later of (i) 6 months from the closing date of the Boksborg Transaction and (ii) the achievement of a minimum of CAD \$600,000 in revenue directly from the app. If Milestone 3 is not achieved within 24 months from closing, then the shares allocated will be returned to the Company's treasury for cancellation.
3. The sum of the Cash Value Consideration Shares and Milestone Consideration Shares shall equal 17,000,000 of the Company's common shares.

On March 3, 2023, the Company entered into a promissory note with Boksborg of \$200,000 with a maturity date of one year. The loan accrues interest at 5% per annum.

There are no significant proposed transactions, other than what is disclosed elsewhere in the MD&A.

#### **Approval**

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee. This Committee meets periodically with management and annually with the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the Financial Statements are approved by the Board of Directors and submitted to the shareholders of the Company. The Board of Directors of the Company has approved the financial statements and the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it.

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### **INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

This management's discussion and analysis includes certain statements that may be deemed "forward-looking statements". Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guaranteeing future performance, and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

This MD&A contains certain "forward-looking statements" and certain "forward-looking information" as defined under applicable Canadian securities laws that may not be based on historical fact, including, without limitation, statements containing the words "believe", "may", "plan", "will", "estimate", "continue", "anticipate", "intend", "expect" and similar expressions. Forward-looking statements are necessarily based on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as the factors we believe are appropriate. Forward-looking statements in this MD&A include but are not limited to statements relating to:

- our business model and strategic plans;
- our ability to achieve profitability;
- our ability to establish and maintain relationships with collaborators with acceptable development, regulatory and commercialization expertise and the benefits to be derived from such collaborative efforts;
- the implementation of our business model and strategic plans;
- our ability to develop and commercialize product candidates;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our expectations regarding federal, provincial and foreign regulatory requirements;
- the ability of management to respond to existing global supply chain challenges and shortages;
- the accuracy of our estimates of the size and characteristics of the markets that may be addressed by our products and product candidates;
- the rate and degree of market acceptance utility of our future products, if any;
- the timing of, and our ability and our collaborators' ability, if any, to obtain and maintain regulatory approvals for our product candidates;
- our expectations regarding market risk, including interest rate changes and foreign currency fluctuations;
- our ability to engage and retain the employees required to grow our business;
- the compensation that is expected to be paid to employees and consultants of the Company;
- our future financial performance and projected expenditures;
- estimates of our expenses, capital requirements, and our needs for additional financing

Such statements reflect our current views with respect to future events and are subject to risks and uncertainties and are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company are inherently subject to significant business, economic, competitive, political, and social uncertainties and contingencies. Many factors could cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements. In making the forward-looking statements included in this MD&A, the Company has made various material assumptions including, but not limited to: (i) obtaining positive results of trials with of-age users of combustible products; (ii) obtaining regulatory approvals; (iii) general business and economic conditions; (iv) the availability of financing on reasonable terms; (v) the Company's ability to attract and retain skilled staff; (vi) market competition; (vii) the products and technology offered by the Company's competitors; and (viii) the Company's ability to protect patents and proprietary rights.

In evaluating forward-looking statements, current and prospective shareholders should specifically consider various factors, including the risks outlined below under the heading "Financial Instruments and Risks". Should one or more of these risks or uncertainties, or a risk that is not currently known to us materialize, or should assumptions underlying those forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this MD&A and we do not intend, and do not assume any obligation, to update these forward-looking statements, except as required by applicable securities laws. Investors are cautioned that forward-looking statements are not guarantees of future performance and are inherently uncertain. Accordingly, investors are cautioned not to put undue reliance on forward-looking statements.