

## The Hash Corporation

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As used in this management's discussion and analysis of financial condition and results of operations ("MD&A"), unless the context indicates or requires otherwise, all references to the "Company", "we", "us" or "our" refer to The Hash Corporation, as constituted on December 31, 2020.

This MD&A for the three months and fiscal years ended December 31, 2020 and 2019 should be read in conjunction with the Company's audited financial statements, the accompanying notes for the fiscal years ended December 31, 2020, and 2019. The financial information presented in this MD&A is derived from the Company's audited financial statements for fiscal years ended December 31, 2020 and 2019 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts are in Canadian dollars except where otherwise indicated.

This MD&A is dated as of February 18, 2021.

#### FORWARD-LOOKING INFORMATION

The information provided in this MD&A, including information incorporated by reference, may contain certain forward-looking statements and forward-looking information (collectively referred to as "forward-looking statements") within the meaning of applicable Canadian legislation about our current expectations, estimates and projections about the future, based on certain assumptions made by us in light of the Company's experience and perception of historical trends. Although we believe that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

This forward-looking information is identified by words such as "anticipate", "believe", "expect", "plan", "forecast", "future", "target", "project", "capacity", "could", "should", "focus", "proposed", "scheduled", "outlook", "potential", "may" or similar expressions and includes suggestions of future outcomes, including statements about the Company's intention to produce and the expected costs and timing thereof; the Company's proposed collaboration agreements with other entities; the Company's expected production capacity; the estimated costs of the Company's proposed capital projects and future investments; potential proceeds from the exercise of the Company's outstanding share purchase warrants; actions taken by the Company, or that the Company may take in the future, to adjust its capital structure; potential effects of regulations under the Cannabis Act (Canada) (together with the regulations thereunder (the "Cannabis Regulations"), the "Cannabis Act") and related legislation introduced by provincial governments. Readers are cautioned not to place undue reliance on forward-looking information as the Company's actual results may differ materially from those expressed or implied.

The Company has made certain assumptions with respect to the forward-looking statements regarding, among other things: the Company's ability to generate sufficient cash flow from operations and obtain financing, if needed, on acceptable terms or at all; general economic, financial market, regulatory and political conditions in which the Company operates; the expected yield from the Company's operations; interest in the Company's products or services; anticipated and unanticipated costs; government regulation of the Company's activities; the timely receipt of any required regulatory approvals; the Company's ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the Company's ability to conduct operations in a safe, efficient and effective manner; and the Company's expansion plans and timeframe for completion of such plans.

Although the Company believes 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 limited operating history of the Company and history of losses; the Company's ability to continue as a going concern; the Company's ability to generate sufficient revenue to be profitable; the Company's ability to raise the capital necessary for it to execute its strategy; increased competition in the cannabis markets in Canada and internationally; rising energy costs; the Company's reliance on key persons; the Company's compliance with environmental, health and safety laws and regulations; insurance risks; interruptions in the supply chain for key inputs; demand for skilled labour, specialized knowledge, equipment, parts and components; reliance on the operations of the Company's partners; results of litigation; conflicts of interest between the Company and its directors and officers; payment of dividends; the partial dependence of the Company's operations on the maintenance and protection of its information technology systems; unforeseen tax and accounting requirements; regulatory risks relating to compliance with the Cannabis Act and Cannabis Regulations; changes in laws; changes to the market price of cannabis; the ability of the Company to produce and sell cannabis supply with collaboration agreements; failure to execute definitive agreements with entities in which the Company has entered

*into letters of intent or memoranda of understanding; changes in government; changes in government policy; failure of counterparties to perform contractual obligations; the Company's ability to successfully develop new products or find a market for their sale; lack of certainty regarding the expansion of the cannabis market; ability of key employees of the Company to obtain or renew security clearances in the future; reputational risks to third parties with whom the Company does business; failure to comply with laws and regulations; the Company's reliance on its own market research and forecasts; competition from synthetic production and new technologies; the existence and growth of the cannabis industry; misconduct or other improper activities by employees, independent contractors, consultants, commercial partners and vendors; failure to comply with health and data protection laws; inability to obtain or maintain sufficient intellectual property protection for the Company's products; third-party claims of intellectual property infringement; patent terms being insufficient to protect competitive position on product candidates; inability to obtain patent term extensions or non-patent exclusivity; inability to protect the confidentiality of trade secrets; inability to protect trademarks and trade names; and other factors beyond the Company's control.*

*The Company cautions that the foregoing list of important factors is not exhaustive. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There is no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.*

*The forward-looking statements contained or incorporated by reference in this MD&A are made as of the date of this MD&A or as otherwise specified. Except as required by applicable securities laws, we undertake no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors affecting those statements, whether as a result of new information, future events or otherwise or the foregoing lists of factors affecting this information.*

*All of the forward-looking information contained in this MD&A is expressly qualified by the foregoing cautionary statements.*

*Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).*

## **OVERVIEW**

The Hash Corporation (the "Company") was incorporated under the Business Corporations Act (Ontario) on March 28, 1967 as Northville Explorations Ltd. On January 22, 2014, the Company changed its name to Senternet Phi Gamma Inc. and on July 8, 2019 the Company changed its name to its present name. The head office of the Company's is located at 1 Adelaide Street East, Suite 801, Toronto, Ontario, M5C 2V9.

The Company is positioning itself to focus on the production and sale of cannabis-based hashish and other cannabis products. The Company intends to apply its separation and curing techniques to produce a suite of high-quality cannabis resin products, which are all-natural and free of additive and carcinogenic solvents. At present, the Company does not possess the licenses required to carry on its business in producing and selling cannabis-based hashish and other cannabis concentrates. In particular, the Company does not have a Standard Processing License and a Cannabis License under the Cannabis Act. The Company does not intend to apply for both these licenses and instead relies on the Collaboration Agreement with Medz Cannabis Incorporated, an Ontario-based, privately-owned company, licensed for the cultivation, processing and sale of medical cannabis under the Cannabis Act.

On April 20, 2020, the Company has entered into five-year collaboration agreement with Medz Cannabis. ("Medz") to produce and sell cannabis-based hashish and other cannabis concentrates. Per the agreement Medz will provide the Company with licensed processing space at Medz licensed facility for the purposes of manufacturing, packing and selling products. The Company is responsible for all costs incurred related to the production and will grant Medz certain profit-sharing rights in connection with the sale of products produced within the Medz facility. The Company will pay Medz a 3.5% royalty on all revenues generated from sale of the products produced in the Medz facility, and a 5% royalty on any tolling or service revenue earned by the Company on certain service contracts.

The Company has entered into a short-term lease for approximately 500 square feet of licensed production space in the Medz facility starting May 1, 2020 and a long term lease for approximately 1,880 square feet of production and office space as well as access of common space and material storage for the term of two year to beginning on February 28, 2021. The Company has the option to renew the lease for additional terms.

## IMPACT OF COVID-19

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19,” has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The extent to which COVID-19 and any other pandemic or public health crisis impacts the Company’s business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

## SELECTED FINANCIAL HIGHLIGHTS

	As at December 31, As at December 31,		Change	
	2020	2019	\$	%
	\$	\$	\$	%
Cash	2,051,028	2,672,404	(621,376)	-23%
Total assets	2,260,542	2,695,207	(434,665)	-16%
Total liabilities	224,825	252,391	(27,566)	-11%

Cash as at December 31, 2020 was \$2,051,028 compared to cash of \$2,672,404 as at December 31, 2019. The decrease of \$621,376 or 23% is primarily due to cash used in operating activities and purchases of equipment.

Total assets as at December 31, 2020 were \$2,260,542 resulting in a decrease of \$434,665 or 16% compared to December 31, 2019. The decrease is primarily attributable to the reduction in cash, offset by an increase in equipment and sales tax receivable as a result of purchases and expenses incurred, respectively.

Total liabilities as at December 31, 2020 were \$224,825 resulting in a decrease of \$27,566 or 11% compared to December 31, 2019. The decrease is due to the decline in trade and other payables.

## RESULTS OF OPERATIONS

The following table outlines our statements of loss and comprehensive loss for the three months ended and year ended December 31, 2020 and 2019:

	Three months ended December 31,				For the year ended December 31,			
	2020	2019	Change		2020	2019	Change	
	\$	\$	\$	%	\$	\$	\$	%
<b>Expenses</b>								
Share-based payments	—	12,900	(12,900)	-100%	<b>1,168,289</b>	1,532,500	(364,211)	-24%
Salaries and wages	<b>143,626</b>	134,741	8,885	7%	<b>546,202</b>	312,391	233,811	75%
Rent, general office and travel	<b>86,567</b>	69,207	17,360	25%	<b>180,045</b>	92,206	87,839	95%
Professional fees	<b>57,245</b>	13,640	43,605	320%	<b>107,920</b>	103,999	3,921	4%
Depreciation	<b>8,179</b>	—	8,179	100%	<b>18,682</b>	—	18,682	100%
<b>Total operating expenses</b>	<b>295,617</b>	230,488	65,129	28%	<b>2,021,138</b>	2,041,096	(19,958)	-1%
<b>Net loss and comprehensive loss</b>	<b>(295,617)</b>	(230,488)	(65,129)	28%	<b>(2,021,138)</b>	(2,041,096)	19,958	-1%

## **REVIEW OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019**

### *Share-based payments*

Share-based payments for the year ended December 31, 2020 were \$1,168,289 compared to \$1,532,500 for the year ended December 31, 2019. The full expense for the year ended December 31, 2020 is related to 37,850,000 warrants that were due to expire on July 8, 2020 and were extended on July 8, 2020 with an exercise price set at \$0.02 to a later date. The incremental fair value of the warrants was calculated using the Black Scholes model and recognized as share-based payment.

### *Salaries and wages*

Salaries and wages increased from \$312,391 to \$546,202 for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase of \$233,811 or 75% is primarily related to employees having been employed for the full year in 2020.

### *Rent, general office and travel*

Rent, general office and travel expenses are primarily comprised of rent for the facilities, general office related expenses and travel expenses. Rent, general office and travel expenses increased from \$92,206 to \$180,045 or 95% for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase is primarily due to the commencement of operations in the second half of fiscal 2019 compared to the full year of operations in 2020. As the Company's operations grow, rent, general office and travel expenses are expected to increase.

### *Professional fees*

Professional fees increased from \$103,999 to \$107,920 or 4% for the year ended December 31, 2020, compared to the year ended December 31, 2019. Professional fees include legal, accounting and consulting expenses that fluctuate from period to period based on the nature of the transactions the Company undertakes.

### *Depreciation*

Depreciation expense increased from \$nil to \$18,682 or 100% for the year ended December 31, 2020, compared to the year ended December 31, 2019. The increase is related to depreciation on equipment acquired and made available for use during the year ended December 31, 2020.

## **REVIEW OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2020 AND 2019**

### *Salaries and wages*

Salaries and wages increased from \$134,741 to \$143,626 for the three months ended December 31, 2020, compared to the three months ended December 31, 2019. The increase of \$8,885 or 7% is primarily related to an increase in employees during the three months ended December 31, 2020.

### *Rent, general office and travel*

Rent, general office and travel expenses are primarily comprised of rent for the facilities and other general office related expenses. Rent, general office and travel expenses increased from \$69,207 to \$86,567 or 25% for the three months ended December 31, 2020, compared to the three months ended December 31, 2019. The increase of \$17,360 is primarily due to the growth of operations. As the Company's operations grow, rent, general office and travel expenses are expected to increase.

### *Professional fees*

Professional fees increased from \$13,640 to \$57,245 or 320% for the three months ended December 31, 2020, compared to the three months ended December 31, 2019. Professional fees include legal, accounting and consulting expenses that fluctuate from period to period based on the nature of the transactions the Company undertakes.

### *Depreciation*

Depreciation expense increased from \$nil to \$8,179 or 100% for the three months ended December 31, 2020, compared to the three months ended December 31, 2019. The increase is related to depreciation on equipment acquired and made available for use during the year ended December 31, 2020.

## SELECTED QUARTERLY INFORMATION

The following table sets forth selected unaudited quarterly statements of operations data for each of the eight quarters commencing January 1, 2019 and ending December 31, 2020. The information for each of these quarters has been prepared on the same basis as the audited financial statements for the year ended December 31, 2020. This data should be read in conjunction with our audited annual financial statements for the years ended December 31, 2020 and 2019. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

	December 31, 2020 \$	September 30, 2020 \$	June 30, 2020 \$	March 31, 2020 \$	December 31, 2019 \$	September 30, 2019 \$	June 30, 2019 \$	March 31, 2019 \$
Total operating expenses	295,617	1,373,719	191,804	159,998	230,488	1,749,062	33,220	28,326
Net loss	(295,617)	(1,373,719)	(191,804)	(159,998)	(230,488)	(1,749,062)	(33,220)	(28,326)
Net loss per share - basic and diluted	(0.001)	(0.006)	(0.001)	(0.001)	(0.002)	(0.028)	(0.001)	(0.001)

## FINANCIAL POSITION

	As at December 31, 2020	As at December 31, 2019	Change	
			\$	%
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	2,051,028	2,672,404	(621,376)	-23%
Sales tax receivable	44,966	22,802	22,164	97%
Prepaid expenses and other assets	20,559	1	20,558	2055800%
<b>Total current assets</b>	<b>2,116,553</b>	<b>2,695,207</b>	<b>(578,654)</b>	<b>-21%</b>
<b>Non-current</b>				
Deposits	40,344	—	40,344	100%
Equipment, net	103,645	—	103,645	100%
<b>Total non-current assets</b>	<b>143,989</b>	<b>—</b>	<b>143,989</b>	<b>100%</b>
<b>Total assets</b>	<b>2,260,542</b>	<b>2,695,207</b>	<b>(434,665)</b>	<b>-16%</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Trade and other payables	224,825	252,391	(27,566)	-11%
<b>Total current liabilities</b>	<b>224,825</b>	<b>252,391</b>	<b>(27,566)</b>	<b>-11%</b>
<b>Total liabilities</b>	<b>224,825</b>	<b>252,391</b>	<b>(27,566)</b>	<b>-11%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	8,020,096	6,629,052	1,391,044	21%
Warrants	1,999,595	1,776,600	222,995	13%
Accumulated deficit	(7,983,974)	(5,962,836)	(2,021,138)	34%
<b>Total shareholders' equity</b>	<b>2,035,717</b>	<b>2,442,816</b>	<b>(407,099)</b>	<b>-17%</b>
<b>Total liabilities and shareholders' equity</b>	<b>2,260,542</b>	<b>2,695,207</b>	<b>(434,665)</b>	<b>-16%</b>

### Assets

#### Current assets

Current assets decreased by \$578,654 or 21%, primarily due to a decrease in cash used in operating activities and cash used to purchase equipment during the year ended December 31, 2020, which was offset by cash provided by financing activities during the year ended December 31, 2020.

#### Non-current assets

Non-current assets increased by \$143,989 or 100% due to the purchase of equipment and deposit on equipment during the year ended December 31, 2020 offset by related depreciation on the equipment recorded during the year ended December 31, 2020.

## Liabilities

### Current liabilities

Trade and other payables decreased by \$27,566 or 11%, due to normal business activities.

### Shareholders' equity

Shareholders' equity decreased by \$407,099 or 17% compared to December 31, 2019 due to net loss of \$2,021,138 for the year ended December 31, 2020 offset by increases in share capital and warrants due to share issuances, exercise of warrants and extension of warrants.

## LIQUIDITY, CAPITAL RESOURCES AND FINANCING

The general objectives of our capital management strategy are to preserve our capacity to continue operating, provide benefits to our stakeholders and provide an adequate return on investment to our shareholders by continuing to invest in our future that is commensurate with the level of operating risk we assume. We determine the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets. We are not subject to any externally imposed capital requirements.

The financial statements and this MD&A has been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The financial statements and this MD&A do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2020, the Company has an accumulated deficit of \$7,983,974, a net loss of \$2,021,138 for the year ended December 31, 2020 and a working capital surplus of \$1,891,728 as at December 31, 2020. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. While the Company has been successful in obtaining financing to date, there can be no assurance that it will be able to do so in the future. The Company will need to raise capital in order to fund its operations. This need may be adversely impacted by uncertain market conditions, COVID-19, approval by regulatory bodies, and adverse results from operations. The outcome of these matters cannot be predicted at this time.

As at December 31, 2020 the Company had cash of \$2,051,028 representing a decrease of \$621,376 from December 31, 2019. This decrease is primarily due to \$904,455 cash used in operating activities, \$162,671 cash used in investing activities, offset by \$445,750 cash provided by financing activities.

### Net cash in cash and cash equivalents provided by (used in)

	For the year ended December 31,	
	2020	2019
	\$	\$
Cash and cash equivalents	<u>2,051,028</u>	<u>2,672,404</u>
Net cash provided by (used in):		
Cash used in operating activities	<u>(904,455)</u>	<u>(378,083)</u>
Cash used in investing activities	<u>(162,671)</u>	<u>—</u>
Cash provided by financing activities	<u>445,750</u>	<u>2,944,763</u>
Net change in cash during the period	<u>(621,376)</u>	<u>2,566,680</u>

### Cash Used in Operating Activities

Cash flows used in operating activities for the year ended December 31, 2020 were \$904,455 compared to cash used in operating activities of \$378,083 for the year ended December 31, 2019. The increase in cash used in operating activities is primarily due a full year of operations for the year ended December 31, 2020 compared to only six months in 2019.

### *Cash Flows Used in Investing Activities*

Cash flows used in investing activities for the year ended December 31, 2020 were \$162,671 compared to \$nil for the comparable period in 2019. The increase is due to the purchase of equipment and deposit on equipment during the year ended December 31, 2020.

### *Cash Flows Provided by Financing Activities*

Cash flows provided by financing activities for the year ended December 31, 2020 were \$445,750 compared \$2,944,763 for the comparable period in 2019. The decrease of \$2,499,013 is primarily due to decreases in proceeds from share issuances for the year ended December 31, 2020 compared to the year ended December 31, 2019.

### **CONTRACTUAL OBLIGATIONS**

We have no significant contractual arrangements other than those noted in our financial statements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

We have no off-balance sheet arrangements other than those noted in our financial statements.

### **TRANSACTIONS WITH RELATED PARTIES**

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities of the entity, directly or indirectly.

Key management personnel compensation during the year ended December 31, 2020 and 2019 is comprised of:

	<b>2020</b>	2019
	<b>\$</b>	<b>\$</b>
Salaries, benefits, bonuses and management fees	<b>430,000</b>	243,333

During the year ended December 31, 2020 17,900,000 warrants were exercised by related parties for gross proceeds of \$89,500, resulting in the issuance of 17,900,000 common shares to related parties.

<b>Related Party</b>	<b>Number of Shares Issued</b>	<b>Exercise Price</b>	<b>Proceeds</b>
Christopher Savoie	5,000,000	\$ 0.005	\$ 25,000
Tyler Metford	5,000,000	\$ 0.005	\$ 25,000
Jesse Kline	5,000,000	\$ 0.005	\$ 25,000
Donal Carroll	2,900,000	\$ 0.005	\$ 14,500
	<b>17,900,000</b>		<b>\$ 89,500</b>

### **CAPITAL RISK MANAGEMENT**

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, which comprises share capital, warrants and accumulated deficit, which at December 31, 2020 was \$2,035,717 (December 31, 2019 – \$2,442,816). The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2020.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

### *Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from deposits with banks and outstanding receivables. The Company trades only with recognized, creditworthy third parties. The Company does not currently have any outstanding trade receivables with customers.

The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

### *Liquidity risk*

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows, the issuance of share capital and if desired, the issuance of debt. The Company's trade and other payables are all due within twelve months from the date of these financial statements.

If unanticipated events occur that impact the Company's ability to complete products for sale, the Company may need to take additional measures to increase its liquidity and capital resources, including issuing debt or additional equity financing or strategically altering the business forecast and plan. In this case, there is no guarantee that the Company will obtain satisfactory financing terms or adequate financing. Failure to obtain adequate financing on satisfactory terms could have a material adverse effect on the Company's results of operations or financial condition.

### *Market risk*

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

- Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Company is not exposed to foreign currency risk as at December 31, 2020 as it does not hold any material financial instruments in foreign currency.

- Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at December 31, 2020 as there are no borrowings outstanding.

- Other price risk

Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its Company, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risk as at December 31, 2020.

### *Fair values*

The carrying values of cash, sales tax receivables and trade and other payables approximate fair values due to the short-term nature of these items or they are being carried at fair value. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:



- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. During the year, there were no transfers of amounts between levels. The Company did not have any financial instruments stated at fair value as at December 31, 2020 and 2019.

## **NEW STANDARDS, AMENDMENT AND INTERPRETATION ADOPTED**

### *IFRS 3 - Business combinations ("IFRS 3")*

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The amendment adoption did not have a significant impact on the Company's financial statements.

### *IAS 1 - Presentation of financial statements ("IAS 1")*

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across International Financial Reporting Standards and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The amendment adoption did not have a significant impact on the Company's financial statements.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Refer to note 2 and 3 of the audited financial statements for a full discussion of our critical accounting policies and estimates.

## **RISK RELATED TO THE OPERATIONS OF THE COMPANY**

An investment in the securities of the Company should be considered highly speculative due to the nature of the Company's proposed business and the present stage of its development. In evaluating the Company and its new business, prospective investors should carefully consider the following risk factors, in addition to the other information contained in this MD&A. These risk factors are not a definitive list of all risk factors associated with an investment in the Company or in connection with the Company's operations.

Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company's business, financial condition or results of operations could be materially adversely affected.

The Company's actual operating results may be very different from those expected as at the date of this MD&A.

### ***Risks Related to the Company's Business and Industry***

#### *Activities of the Resulting Company may be impacted by the spread of the COVID-19*

The Company's business could be significantly adversely affected by the effects of a widespread global outbreak of contagious disease, including the recent outbreak of respiratory illness caused by COVID-19. On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The Company cannot accurately predict the impact COVID-19 will have on the Company's business. Risks posed by COVID-19 include uncertainties relating to the ultimate geographic spread of the virus,

the severity of the disease, the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries. A significant outbreak of contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for the Company's services and likely impact operating results.

#### *Dependent on relationship with Medz Cannabis*

At present, the Company does not have the required licences to carry on its business in producing and selling cannabis-based hashish and other cannabis concentrates. Accordingly, the Company intends, through the Collaboration Agreement, to rely on Medz Cannabis' Standard Processing Licence and Cannabis Licence in order to produce and sell the cannabis-based hashish and other cannabis concentrates.

To facilitate the Collaboration Agreement, Medz Cannabis will have to amend its Standard Processing Licence in order to produce the newly legal products (edible cannabis, cannabis topical, and cannabis extracts). There is no certainty that Medz Cannabis will be granted the requirement amendments to its licence.

The Company's ability to carry on its business is heavily dependent on its business relationship with Medz Cannabis and its ability to utilize Medz Cannabis' Standard Processing Licence and Cannabis Licence.

#### *Risks Pertaining to Changing Laws and Regulations*

The cannabis extract and cannabis concentrates industry is a new industry and the Company cannot predict the impact of the compliance regime Health Canada is implementing for the production and sale of cannabis extracts and concentrates. Government licences are currently, and in the future may be, required in connection with Company's operations, in addition to other unknown permits and approvals which may be required. 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. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, financial condition and operating results of the Company.

Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, financial condition and operating results of the Company.

#### *No Profits or Significant Revenues*

The Company has a limited operational history in the cannabis industry which makes it difficult to evaluate its performance and future prospects. The Company's current and proposed operations are subject to all the business risks associated with new enterprises. These include likely fluctuations in operating results as the Company makes significant investments in research, development and product opportunities, and reacts to developments in its market, including purchasing patterns of customers, and the entry of competitors into the market. The Company will only be able to pay dividends on any shares once its directors determine that it is financially able to do so.

The Company incurred net losses for the years ended December 31, 2020, 2019, 2018, and 2017. As a result, the Company cannot make any assurance that it will be profitable in the next three years or generate sufficient revenues to pay dividends to the holders of the shares.

#### *Reliance on Management and Key Personnel*

The Company's success is largely dependent on the performance of its Board of Directors and management team. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. The loss of any of the Company's senior management or key employees, or an inability to attract other suitably qualified persons when needed, could materially adversely affect its ability to execute its business plan and strategy, and it may not be able to find adequate replacements on a timely basis, or at all.

#### *Factors which may prevent realization of growth targets*

The Company is currently in an early development stage. There is a risk that the resources necessary for its business and operations may not be secured on time, on budget, or at all, and further, that the Company may not have sufficient product available to meet the anticipated future demand when it arises, as a result of being adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- failure, or delays in, obtaining or satisfying conditions imposed by regulatory approvals
- non-performance by third party contractors
- increases in materials or labour costs
- breakdown, aging or failure of equipment or processes
- operational inefficiencies
- labour disputes, disruptions or declines in productivity
- inability to attract sufficient numbers of qualified workers
- disruption in the supply of energy and utilities
- major incidents and/or catastrophic events such as fires, explosions or storms

The Company may experience additional expenditures related to unforeseen issues that have not been taken into account in the preparation of this MD&A.

#### *Additional financing*

The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of the Company's current business strategy or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of the shares. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

#### *Competition*

The Company faces competition from other companies, some of which have longer operating histories and more financial resources and marketing experiences. There can be no assurance that potential competitors of the Company, which may have greater financial, R&D, sales and marketing and personnel resources than the Company, are not currently developing, or will not in the future develop, products and strategies that are equally or more effective and/or economical as any products or strategies developed by the Company or which would otherwise render the Company's products or strategies obsolete. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

#### *The Company is subject to insurance risks*

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, cybersecurity and other information technology, systems risks, accidents, labour disputes, product liability 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.

#### *Risks Related to Intellectual Property*

As of the date of this MD&A, the Company does not have its own proprietary formulations and processes with respect to the production of hashish. In the future, the Company's success and ability to compete effectively may depend, in part, on its ability to maintain the proprietary nature of formulations and processes it creates, and the ability to secure and protect any patents, trade secrets, trademarks and other intellectual property rights either developed internally or acquired by the Company from time to time, and to operate without infringing on the proprietary rights of others or having third parties circumvent the rights that it owns or licences. In the event that the Company's intellectual property rights were to be infringed by, disclosed to or

independently developed by a competitor, enforcing a claim against such third party could be expensive and time-consuming and could divert management's attention from our business. In addition, the outcome of such proceedings is unpredictable. Any adverse outcome of such litigation or settlement of such a dispute could subject the Company to significant liabilities, and could put one or more of the Company's patents or patent application, as applicable, at risk of being not issued, of being invalidated, or of being interpreted narrowly.

The Company's commercial success will also depend, in part, on operating its business without infringing the patents or proprietary rights of third parties. Third parties that believe the Company is infringing on their rights could bring actions against it claiming damages and seeking to enjoin the development, marketing and distribution of its products. If the Company becomes involved in any litigation, it could consume a substantial portion of its resources, regardless of the outcome of the litigation. If any of these actions are successful, the Company could be required to pay damages and/or to obtain a licence to continue to develop or market its products, in which case it may be required to pay substantial royalties. However, any such licence may not be available on terms acceptable to the Company or at all. Ultimately, the Company could be prevented from commercializing a product or forced to cease some aspect of its business operations because of patent infringement claims, which would harm its business.

#### *Client acquisition and retention*

The Company's success depends on its ability to attract and retain customers. There are many factors which could impact the Company's ability to attract and retain customers, including but not limited to the Company's ability to continually produce desirable and effective product, the successful implementation of the Company's branding and marketing strategy, the continued growth in the aggregate number of customers interested in consuming cannabis extracts and concentrates, and other companies producing and supplying similar products. The Company's failure to acquire and retain customers would have a material adverse effect on the business, financial condition and operating results of the Company.

#### *Research and development and product obsolescence*

Rapidly changing markets, technology, emerging industry standards and frequent introduction of new products characterize the Company's business. The introduction of new products embodying new technologies and the emergence of new industry standards may render the Company's products less competitive or less marketable. The process of developing the Company's future products may be complex and requires significant continuing costs, development efforts and third party commitments. The Company's failure to develop new products and the obsolescence of existing products could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing products obsolete. The Company's success will depend, in part, on its ability to continue to enhance its existing products, and develop new products that address the increasing sophistication and varied needs of the market on a timely and cost-effective basis. The development of the Company's proprietary formulations and products entails significant technical and business risks. The Company may not be successful in creating new products, or exploiting its niche markets effectively or adapting its businesses to evolving customer requirements or preferences or emerging industry standards.

#### *Commodity Price Risk*

Cannabis is a developing market, likely subject to volatile and possibly declining prices year over year, as a result of increased competition. Because cannabis is a newly commercialized and regulated industry, historical price data is either not available or not predictive of future price levels. There may be downward pressure on the average price for cannabis and the Company has arranged its proposed business accordingly; however, there can be no assurance that price volatility will be favorable to the Company. Pricing will depend on general factors including, but not limited to, the number of licenses granted by Health Canada and the supply such licensees are able to generate. An adverse change in the cannabis prices, or in investors' beliefs about trends in those prices, could have a material adverse outcome on the Company and its securities.

#### *Unfavourable publicity or consumer perception*

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis as well as products produced or manufactured using cannabis. Consumer perception of the Company's products and technologies can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical and/or recreational cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory

proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or the Company's products and services specifically, or associating the consumption of medical and/or recreational cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

#### *Product liability*

As a manufacturer and distributor of products directly or indirectly designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis extract and cannabis concentrate products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, financial condition and operating results of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's products.

#### *Disruption in Manufacturing*

The Company plans to produce all or nearly all of the cannabis extracts that it expects to sell to its customers. Accordingly, the Company will be highly dependent on the efficient operation of the Facility. Any significant disruption in its operations at the Facility for any reason, including as a result of regulatory requirements, equipment failures, natural disasters, fires, accidents, work stoppages, power outages, quality of raw material or other reasons, could disrupt its supply of products to its customers, which in turn could adversely affect its sales and customer relationships, and its business financial condition and/or results of operations could be materially adversely affected. Lost sales or increased costs that may be experienced during a disruption of operations may have a material adverse effect on the Company's business and financial results.

#### *Security Breaches; Theft of Products; Data Loss; Credit Card Fraud; Identity Theft*

The protection of customer, employee, suppliers and other business data will be important to the Company. Federal and provincial laws and regulations govern the collection, retention, sharing and security of data that the Company receives and will receive from and about its employees, customers and suppliers. The regulatory environment surrounding information security and privacy has been increasingly demanding in recent years, and may see the imposition of new and additional requirements in the jurisdictions in which the Company does and will do business. Compliance with these requirements may result in cost increases due to necessary systems changes and the development of new processes to meet these requirements. In addition, it is expected that customers will have a high expectation that the Company will adequately protect their personal information. If the Company or its service providers fail to comply with applicable privacy laws and regulations or experience a significant breach of customer, employee, supplier or other company data, its reputation could be damaged and result in an increase in service charges, suspension of service, lost sales, fines or lawsuits.

The Company may use credit payment systems to facilitate sales. The use of such systems may make it more susceptible to a risk of loss in connection with privacy issues, particularly with respect to an external security breach of customer information that third parties control. It is expected that a portion of the Company's sales will require the collection of certain customer data, such as credit card information. In order for the Company's sales channel to function, the Company and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information, securely over public networks. In the event of a security breach, theft, leakage, accidental release or other illegal activity with respect to employee, customer, supplier or other company data, the Company could become subject to various claims, including those arising out of thefts and fraudulent transactions, and may also result in the suspension of credit card services. This could cause customers to lose confidence in the Company's security measures, harm its reputation as well as divert management attention and expose it to potentially unreserved claims and litigation. Any loss in connection with these types of claims could be substantial. In addition, if the Company's electronic payment systems are damaged or cease to function properly, the Company may have to make significant investments to fix or replace them, and consequently it may suffer interruptions in its operations in the interim. In addition, the Company expects that it will be reliant on these systems, not only to protect the security of the

information stored, but also to appropriately track and record data. Therefore, any failures or inadequacies in these systems could expose the Company to significant unreserved losses, which could materially and adversely affect its earnings and the market price of securities. The Company's brand reputation would likely be damaged as well.

Given the nature of the Company's expected business activities and the expected concentration of cannabis products in inventory in the Facility, despite meeting or exceeding Health Canada's security requirements, there will be a risk of shrinkage as well as theft. A security breach at the Facility could expose the Company to additional liability and to potentially costly litigation, and could result in increased costs in relation to resolving such shrinkage or theft and preventing same in future.

*Certain key employees are subject to security clearance from Health Canada, and there can be no assurance that such personnel will be able to obtain or renew security clearances in the future.*

Certain key employees are subject to a security clearance by Health Canada. Under the Cannabis Act a security clearance cannot be valid for more than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of our existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by a key employee to maintain or renew his or her security clearance, would result in a material adverse effect on our business, financial condition and results of operations. In addition, if a key employee leaves us, and we are unable to find a suitable replacement that has a security clearance required by the Cannabis Act in a timely manner, or at all, there could occur a material adverse effect on our business, financial condition and results of operations.

#### *Product recalls*

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

*Unfavorable publicity regarding the cannabis industry could have a material adverse effect on the Company, the demand for the Company's proposed products, and the results of operations, financial condition and cashflows of the Company.*

Management of the Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis related produce. Consumer perception of the Company's proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis and cannabis extract products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis and cannabis extract product market or any particular product, or consistent with earlier publicity.

Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's proposed products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's proposed products, and the results of operations, financial condition and cash flows of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis and cannabis extracts in general, or the Company's proposed products specifically, or associating the consumption of cannabis extracts with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

### *Contamination and Production Interruptions*

The Company has adopted various quality, environmental, health and safety standards. However, products may still not meet these standards or could otherwise become contaminated. A failure to meet these standards or contamination could occur in its operations or those of its suppliers. Such a failure or contamination could result in expensive production interruptions, recalls and liability claims. Moreover, negative publicity could be generated even from false, unfounded or nominal liability claims or limited recalls. Any of these failures or occurrences could negatively affect the Company's business and financial performance.

### *Promoting the Brand*

Promoting the Company's brand will be critical to creating and expanding a customer base. Promoting the brand will depend largely on the Company's ability to provide quality and innovative products. The Company may introduce new products or services that its customers do not like, which may negatively affect the brand and reputation. If the Company fails to successfully promote its brand or if it incurs excessive expenses in this effort, its business and financial results from operations could be materially adversely affected.

*Marketing constraints under the regulatory framework, including plain packaging regulations, limit the Company's ability to compete for market share in a manner similar to other industries.*

The development of our business and operating results may be hindered by applicable restrictions on sales and compete for market share in a manner similar to other industries. If we are unable to effectively market our products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for our products, our sales and operating results could be adversely affected.

Moreover, the Cannabis Act imposes further packaging, labelling and advertising restrictions on producers. If we fail to comply with the packaging, labelling and advertising restrictions, we will be subject to monetary penalties, required to suspend sale of noncompliant products and/or be disqualified as a vendor by government-run provincial distributors.

### *Success of Quality Control Systems*

The quality and safety of the Company's products are critical to the success of its business and operations. As such, it is imperative that the Company (and its service providers') quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality of the training program and adherence by employees to quality control guidelines. Any significant failure or deterioration of such quality control systems could have a material adverse effect on the Company's business and operating results.

### *Reliance on key inputs*

The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies, specifically cannabis. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Examples of potential risks include, but are not limited to, the risk that crops may become diseased or victim to insects or other pests and contamination which could result in low crop yields, decreased availability of cannabis, and higher acquisition prices. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

### *Reliance on Management; Dependence on Suppliers and Skilled Labour*

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. Its future success will depend on its ability to attract, develop, motivate and retain highly qualified personnel. Qualified individuals are in high demand and the Company may incur significant costs to attract and retain them. In addition, the loss of any key senior management could materially adversely affect the Company's ability to execute its business plan and it may not be able to find adequate replacements on a timely basis, or at all.

The ability of the Company to compete and grow will also be dependent on it having access, at a reasonable cost and in a timely manner, to non-management skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. This could have an adverse effect on the financial results of the Company.

### *Risks Related to Third Party Relationships*

The Company currently has, and may in the future enter into, strategic alliances with third parties that the Company believes will complement or augment its existing business or will have a beneficial impact on the Company. Strategic alliances could present unforeseen integration obstacles or costs, may not enhance the Company's business, and may involve risks that could adversely affect the Company, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve, or that the Company's existing strategic alliances will continue to achieve, the expected benefits to the Company's business or that the Company will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

### *Liability arising from Fraudulent or Illegal Activity*

The Company is exposed to the risk that its employees, independent contractors, consultants, service providers and licensors may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional undertakings of unauthorized activities, or reckless or negligent undertakings of authorized activities, in each case on the Company's behalf or in its service that violate (i) various laws and regulations, including healthcare laws and regulations, (ii) laws that require the true, complete and accurate reporting of financial information or data, (iii) the terms of the Company's agreements with third parties. Such misconduct could expose the Company to, among other things, class actions and other litigation, increased regulatory inspections and related sanctions, and lost sales and revenue or reputational damage.

The Company cannot always identify and prevent misconduct by its employees and other third parties, including third party service providers, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown, unanticipated or unmanaged risks or losses or in protecting it from governmental investigations or other actions or lawsuits stemming from such misconduct. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal or administrative penalties, damages, monetary fines and contractual damages, reputational harm, diminished profits and future earnings or curtailment of its operations.

### *Difficulty to forecast*

Detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis extracts industry in Canada. 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.

### *Operating risk and insurance coverage*

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future, or if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

### *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.

### *Management may not be able to successfully implement and maintain adequate internal controls over financial reporting or disclosure controls and procedures.*

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company has undertaken a number of procedures and has implemented 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.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of such controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be materially adversely affected, which could cause investors to lose confidence in us and our reported financial information, which in turn could result in a reduction in the value of Common Shares.

#### *Conflicts of interest*

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities.

Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.  
Unpredictable and volatile market price for shares

The market price for the shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- Actual or anticipated fluctuations in the Company's quarterly results of operations
- Recommendations by securities research analysts
- Changes in the economic performance or market valuations of companies in the industry in which the Company operate
- Addition or departure of the Company's executive officers and other key personnel
- Release or expiration of lock-up or other transfer restrictions on outstanding Company shares
- Sales or perceived sales of additional Company shares
- Significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors
- Operating and share price performance of other companies that investors deem comparable to the Company
- Fluctuations to the costs of vital production materials and services
- Changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility
- Operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets

Financial markets may experience price and volume fluctuations that may affect the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the shares may decline even if the Company's operating results, underlying asset values or prospects do not change. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which might result in impairment losses.

*Tax and accounting requirements may change in ways that are unforeseen to us and we may face difficulty or be unable to implement or comply with any such changes.*

The Company is subjected to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a significant adverse effect on our financial results, the manner in which we conduct our business or the marketability of any of our products.

#### *No dividends*

The Company's current policy is to retain earnings to finance the development and enhancement of its products and to otherwise reinvest in the Company. Therefore, the Company does not anticipate paying cash dividends on the Company shares in the foreseeable future. The Company's dividend policy will be reviewed from time to time by its Board of Directors in the context of its earnings, financial condition and other relevant factors. Until the time that the Company does pay dividends, which it might never do, its shareholders will not be able to receive a return on their shares unless they sell them.

#### *Future sales of Company shares by existing shareholders*

Sales of a substantial number of shares in the public market could occur at any time. These sales, or the market perception that the holders of a large number of shares intend to sell shares, could reduce the market price of our shares. Holders of options to purchase shares will have an immediate income inclusion for tax purposes when they exercise their options (that is, tax is not deferred until they sell the underlying shares). As a result, these holders may need to sell shares purchased on the exercise of options in the same year that they exercise their options. This might result in a greater number of shares being sold in the public market, and fewer long-term holds of shares by management and our employees.

### **OUTSTANDING SHARE DATA**

The Company is authorized to issue an unlimited number of common shares.

The Company's outstanding capital was as follows as at the date of this MD&A:

Common Shares	224,220,290
Share Options	19,500,000
Warrants	73,804,573

### **SUBSEQUENT EVENTS**

On February 3, 2021, the Company entered into a five-year collaboration agreement with Black Rose Organics Inc. ("BRO"). Under the terms of the agreement the Company will have access to a production space licensed for Cannabis Production within BRO's facility. BRO will also assist the Company with obtaining the necessary license amendments from Health Canada to permit the Company and BRO to produce and sell cannabis products. The Company and BRO will share profits from the sale of products produced by the Company in the BRO facility.

On February 17, 2021, the Company granted a total of 4,000,000 share options to certain members of the Board of Directors. The share options vest immediately, have an exercise price of \$0.11 per share option, and expire 3 years from the date of issuance.

### **DISCLOSURE OF INTERNAL CONTROLS**

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence to ensure that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements; and (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Company uses the Venture Issuer Basic Certificate, which 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 generally accepted accounting principles (IFRS). The Company’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 Company 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.