



HEMPSANA HOLDINGS LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

REPORT DATE: August 25, 2022

This Management Discussion and Analysis (the “MDA”) provides relevant information on the operations and financial condition of Hemsana Holdings Ltd. (the “Company” or “Hemsana”) for the three and six months ended June 30, 2022 and should be read in conjunction with the Company’s interim condensed consolidated financial statements (the “financial statements”) and the notes thereto for the three and six months ended June 30, 2022, as well as the Company’s audited consolidated financial statements and notes thereto for the years ended December 31, 2021 and 2020.

This MDA makes reference to the Company’s activities prior to its July 12, 2021 Reverse Take Over Transaction (“RTO Transaction”) with Stralak Resources Inc. (“Stralak”). In those cases, references to the “Company” refers to the Company’s predecessor operating entity, Hemsana Inc.

All monetary amounts in this MDA and in the financial statements are expressed in Canadian dollars, unless otherwise stated. Financial results are being reported in accordance with International Financial Reporting Standards (“IFRS”).

The Company’s certifying officers, based on their knowledge, having exercised reasonable diligence, are also responsible to ensure that these filings do not contain any untrue statement of material fact or omits 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 was made, with respect to the period covered by these filings, and these financial statements together with other financial information included in these filings, The Board of Directors’ approves the financial statements and MDA and ensures that management has discharged its financial responsibilities.

Additional information regarding the Company is available on SEDAR at www.sedar.com, and the Company’s website www.hemsana.ca.

FORWARD-LOOKING STATEMENTS

This MDA contains forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning of applicable Canadian legislation. These statements relate to future events or the future activities or performance of the Company. All statements, other than statements of historical fact, are forward-looking statements. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate, plans and similar expressions, or which by their nature refer to future events. These forward-looking statements include, but are not limited to, statements concerning:

- the Company’s strategies and objectives general business and economic conditions; and
- the Company’s ability to meet its financial obligations as they come due, and to be able to raise the necessary funds to continue operations

Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Inherent in forward looking statements are risks and uncertainties beyond the Company’s ability to predict or control, including, but not limited to, risks related to the Company’s inability to raise the necessary capital to be able to continue in business and to implement its business strategies and the Company’s inability to obtain any necessary permits, consents or authorizations required for its activities. Please refer to the listing statement of Hemsana Holdings Ltd. dated July 12, 2021 for further risks related to the Company.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance, or achievement may vary materially from those expressed or implied by the forward-looking information contained in MDA. These risk factors should be carefully considered, and readers are cautioned not to place undue reliance on forward-looking statements, which speaks only as of the date of this MDA. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect

events or circumstances that occur after the date of this MDA or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.

COMPANY OVERVIEW

Hempsana Inc. was incorporated under the laws of Canada on October 15, 2018. Stralak was incorporated on January 31, 1980 under the laws of the Province of British Columbia. On June 25, 2021, Stralak was renamed to Hempsana Holdings Ltd. Following the reverse takeover transaction, Hempsana Inc., is now a wholly-owned subsidiary of Hempsana Holdings Ltd.

The Company specializes in cannabis derivatives and is focused on extraction and purification, and end-product manufacturing. The Company earns revenues from three sources: the production and selling of various cannabis derivatives, including distillates and isolates, through wholesale channels in Canada; third party processing services (“Tolling Services”); and, white-label contract manufacturing for cannabis brands and other licensed producers.

The Company amended their cannabis license that allows the Company to supply and sell finished cannabis products directly to provincial distributors and other authorized Canadian retail supply channels. The amended sales license is expected to open up new growth opportunities with partners and expand its sales channels both in the wholesale and consumer retail segment of the market. These include provincial distribution agreements for international brands and for additional contract manufacturing opportunities with partners interested in leveraging the Company’s state of the art facilities and its amended sales license.

The Company operates an extraction facility located in Goderich, Ontario, Canada (the “Goderich Facility”). All of the Company’s production activities, including product development, certain end-product manufacturing, and packaging and distribution, are conducted at the Goderich Facility.

The Goderich Facility is strategically located in an industrial area within a larger agricultural county, and its operations have the support of local government. The location provides the Company with excellent access to biomass raw materials and skilled workers. The Company purchased the building shell of the Goderich Facility and an acre of property in November 2018. The building was constructed as an 8,000 sq. ft. stand-alone facility that includes office space, manufacturing space, and a farm-gate retail sales area. The laboratory within the facility is engineered with ISO-8 standard clean rooms which are European Goods Manufacturing Practices and Good Production Practices compliant.

The Company’s head office is located at 3080 Yonge Street, Suite 6060, Toronto, Ontario, Canada, M4N 3N1. The registered address is located at 148 Cranbrooke Avenue, Toronto, Ontario, Canada, M5M 1M5.

RECENT DEVELOPMENTS

White-Label Contract Manufacturing Agreements

The Company signed a number of additional white-label contract manufacturing agreements during the three and six months ended June 30, 2022.

On March 29, 2022, the Company entered into a contract manufacturing agreement with Canna Relief Consulting Canada Inc. (“Canna Relief”) to co-manufacture and distribute their first of many health and wellness products. Under the terms of the agreement, Canna Relief will leverage Hemsana’s EU GMP compliant facility and its full suite of product manufacturing capabilities to support the product development of the Canna Relief Natural Solutions’ Pain Roll-On formulation.

On April 4, 2022, the Company entered into a contract manufacturing agreement with 12155463 Canada Inc. O/A EXIT. (“EXIT”) to co-manufacture and distribute their pre-roll and capsule cannabis products. Under the terms of the agreement, EXIT will leverage Hemsana’s suite of product manufacturing capabilities and co-packing relationships to support the product development of EXIT’s first two products with distribution into Ontario and Manitoba.

On April 11, 2022, the Company announced that the Company and GAMA Corp (“GAMA”) signed Agreement to Bring Caviar Gold, Ice Cube, Jay & Silent Bob Branded Pre-Rolls and Moon Rocks to Canada and International Markets. The Company will work with GAMA to provide contract manufacturing for the Caviar Gold Brand to bring their original infused pre-rolls and the only patented brand in the world for pre-roll cones and moon rocks to both the recreational and medical markets.

On June 16, 2022, the Company entered into a custom manufacturing agreement with 1337 Elite Inc. (“1337 Elite”), to launch their first products from their 1337 Elite branded line of products. Under the terms of the agreement, Hemsana has agreed to manufacture seven products including cannabis rosin, dried flower (3.5, 7.0g and 14g), pre-rolls and infused pre-rolls. Hemsana will leverage its manufacturing services to manufacture and distribute the 1337 Elite branded product line.

Distribution Agreements

On May 13, 2022, the Company entered into a contract manufacturing agreement with Saffron Gold Inc. (“Saffron Gold”) to be licensed producer of record for their products and to distribute their products to the various provincial boards across Canada. Under the terms of the agreement, Saffron Gold will leverage Hemsana’s Cannabis Sales License to access cannabis retailers in the various jurisdictions with initial launch of their infused pre-roll and blunt products.

SELECTED FINANCIAL INFORMATION

The following selected financial data have been prepared in accordance with IFRS unless otherwise noted and should be read in conjunction with the Company's interim condensed consolidated financial statements as well as the Company's audited consolidated financial statements. The following tables provide selected consolidated financial data for the periods indicated.

	For the three months ended		For the six months ended	
	June 30,	June 30,	June 30,	June 30,
	2022	2021	2022	2020
Sales	\$ 274,361	\$ -	\$ 629,216	\$ -
Cost of sales	237,235	-	416,252	-
Net loss	(536,197)	(614,539)	(778,572)	(1,361,035)
Loss per share - basic and diluted	(0.02)	(0.03)	(0.03)	(0.07)
Gross profit	37,126	-	212,964	-
Gross profit %	13.5%	-	33.8%	-

	June 30,	December 31,
As at	2022	2021
Cash	\$ 23,393	\$ 46,189
Inventory	149,265	118,108
Other working capital	249,616	329,454
Total assets	3,820,086	4,017,975
Total non-current liabilities	427,203	534,751

Financial Results of Operations

Three months ended June 30, 2022 compared to three months ended June 30, 2021

The Company had \$274,361 in revenues for the three months ended June 30, 2022, and no revenues for the three months ended June 30, 2021. During Q2 of 2022, the Company experienced delays in launching products for contract manufacturing customers and in producing minor cannabinoids which negatively impacted revenues.

Gross margins for the three months ended June 30, 2022, were negatively impacted by a higher product mix sold in which the Company needed to pay for input materials under revenue sharing arrangements. These arrangements have a higher cost of sales compared to input material bought by the Company directly. There were also fewer tolling services revenues and higher contract manufacturing revenues, which have a lower margin, in the three months ended June 30, 2022.

Net loss for the three months ended June 30, 2022 was lower by \$78,342, mostly due to the company generating gross profit of \$37,126, lower legal and professional fees and facility supplies, offset by increases in depreciation and amortization, insurance, management fees, share-based payments, wages and other operating expenses.

Six months ended June 30, 2022 compared to six months ended June 30, 2021

The Company had \$629,216 in revenues for the six months ended June 30, 2022, and no revenues for the six months ended June 30, 2021. Net loss for the six months ended June 30, 2022 was lower by \$582,463, mostly due to the company generating gross profit of \$212,964, and in 2021, the Company was preparing for a private placement and RTO which drove investor relations costs and legal and professional fees higher by \$369,500.

QUARTERLY RESULTS

The following table presents certain unaudited financial information for each of the eight quarters up to and including the quarter ended June 30, 2022. The information has been derived from our unaudited quarterly consolidated financial statements.

	For the three months ended							
	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
Revenue	\$ 274,361	\$ 354,855	\$ 84,351	\$ 30,364	\$ -	\$ -	\$ -	\$ -
Net loss	\$ (536,197)	(242,375)	(417,309)	(2,460,126)	(614,539)	(746,496)	(812,646)	(302,453)
Loss per share - basic and diluted	\$ (0.02)	(0.01)	(0.02)	(0.11)	(0.03)	(0.04)	(0.05)	(0.02)

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2022, the Company had a working capital deficit of \$1,722,606 (December 31, 2021 - \$1,000,514) and has incurred losses since inception. The Company started generating revenues from its principal operations in 2021; however, the Company has not yet begun generating net positive cash flows and has relied on financing. These conditions indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations, complete additional financings, and/or extend or modify its loans payable.

On October 18, 2019, the Company entered into a private loan with a related party for \$850,000 which bears interest at the rate of 12% per annum, calculated monthly. The private loan matures on November 1, 2024 and can be repaid before maturity without penalty and is secured by the Company's land and building.

The private loan is recorded at amortized cost, which was initially measured at fair value less transaction costs. Loan issuance costs were capitalized when incurred and are being amortized over the term of the loan using the effective interest rate method. The private loan is repayable in monthly installments, with a combined principal and interest payment of \$18,908 per month.

On October 1, 2021, a Director and related party of the Company agreed to finance the Company's private loan payments for three months. The total commitment is \$56,723 and covered the loan payments for October, November and December 2021. This Director is related to the holder of the existing private loan. Prior to this additional financing, the Company had owed him \$196,363 which comprised of the \$189,108 previous loan payments he had made on the Company's behalf, as well as purchases for various equipment and services. As part of this additional financing, the Company restructured the entire amount owing as a new Promissory Note which bears a 10.0% interest rate. Half of the total amount owing is to be repaid on August 25, 2022 and the remaining half is due by August 25, 2023. The Company can repay the Promissory Note early without penalty and it is secured by a second mortgage on the Company's Goderich property. As at June 30, 2022, the principal value of the promissory note was \$279,751 (December 31, 2021 - \$266,685) and the fair value of the loan was \$275,048 (December 31, 2020 - \$259,235).

In response to COVID-19, many governments around the world have provided various subsidy programs to assist companies during the pandemic. The Company participated in the Canada Emergency Business Account ("CEBA") program in Canada, which was announced in March 2021. CEBA provides interest-free loans up to \$60,000 to small businesses. On April 28, 2020, the Company received a \$40,000 interest-free government loan from the CEBA program. The interest-free benefit has been recorded in the statement of comprehensive income as other income. The loan bears no interest until December 31, 2022, and \$10,000 loan forgiveness will be granted if repaid before this date. As at June 30, 2022, the principal value of the government loan was \$40,000 (December 31, 2021 - \$40,000) and the fair value of the loan was \$37,663 (December 31, 2021 - \$35,498).

On January 21, 2021 the Company issued convertible debentures for the aggregate amount of \$250,000 to

settle amounts owing to a vendor. The convertible debentures were non-interest bearing and were secured against certain equipment owned by the Company. The convertible debentures were to be automatically converted into shares of the Company upon the completion of the Reverse Takeover.

The Company accounted for the convertible debentures as hybrid contracts where the initial carrying value of the host debt was the residual amount after separating the embedded derivatives. The host debt was carried at amortized cost and the embedded derivatives were accounted for as financial liabilities measured at fair value through profit or loss.

As the convertible debentures did not have a fixed conversion price, it did not meet the fixed-for-fixed criteria, therefore the fair value of the conversion feature was classified as a derivative liability. The residual debt host portion was accreted using an effective interest rate (“EIR”) of 17.83%. Accretion expense has been included in interest expense line in the statements of loss and comprehensive loss.

On July 12, 2021, the convertible debentures were converted into equity.

CASH FLOWS

The following tables and discussion show the significant cash transactions impacting the cash flows of the Company for the three and six months ended June 30, 2022 and 2021.

	For the three months ended		For the six months ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Cash flows (used in) from operating activities	\$ (21,822)	\$(272,062)	\$ 59,317	\$(1,864,353)
Cash flows used in investing activities	-	(156,160)	-	(195,857)
Cash flows (used in) from financing activities	(41,668)	(7,536)	(82,113)	2,555,434
Net (decrease) increase in cash	(63,490)	(435,758)	(22,796)	495,224
Cash, beginning of year	86,883	1,011,498	46,189	80,516
Cash, end of year	\$ 23,393	\$ 575,740	\$ 23,393	\$ 575,740

Cash flows used in operating activities during the three months ended June 30, 2022 were \$250,240 lower than the three months ended June 30, 2021 primarily due to lower net losses of \$78,342 and larger accounts payable balances during the three months ended June 30, 2022.

Cash flows used in investing activities during the three months ended June 30, 2022 were \$156,160 lower than the three months ended June 30, 2021 due to no purchases of property, plant and equipment and intangible asset in during the three months ended June 30, 2022.

Cash flows used in financing activities during the three months ended June 30, 2022 were \$34,132 higher than June 30, 2021 due to the Company collecting cash for the issuance of common shares of \$31,242 for a private placement that closed shortly after the three months ended June 30, 2021.

Cash flows from operating activities during the six months ended June 30, 2022 were \$1,923,670 higher than the six months ended June 30, 2021 primarily due to lower net losses of \$582,463 and larger accounts payable balances during the six months ended June 30, 2022.

Cash flows used in investing activities during the six months ended June 30, 2022 were \$195,857 lower than the six months ended June 30, 2021 due to no purchases of property, plant and equipment and intangible asset in during the six months ended June 30, 2022.

Cash flows from financing activities during the six months ended June 30, 2022 were \$2,637,547 lower than June 30, 2021 due to the Company closing a private placement of \$2,451,147 and the issuance of convertible debentures of \$250,000, offset by \$104,084 in share issuance costs during the six months ended June 30, 2021.

SHARE CAPITAL

(a) On April 22, 2022, the Company granted 757,000 stock options to Directors and Officers. The granted stock options have an exercise price of \$0.05 and expire on April 22, 2032. As of the date of the MDA the Company has 24,129,323 issued and outstanding common shares. The authorized share capital is unlimited no par value common shares.

(b) As at the date of the MDA the Company has 2,412,345 incentive stock options outstanding.

(c) As at the date of the MDA the Company has 4,397,218 outstanding share purchase warrants.

RELATED PARTY TRANSACTIONS

Several key management personnel and Directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

The following related parties transacted with the Company during the three months ended June 30, 2022 and 2021:

- (a) 12813521 CANADA INC
- (b) 2822477 Ontario Inc.
- (c) rk3 Global Services Incorporated
- (d) The CFO Center Limited
- (e) Eurofins Experchem Laboratories Inc.

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

	For the three months ended		For the six months ended		Balances outstanding	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021	June 30, 2022	December 31, 2021
12813521 CANADA INC	\$ 24,900	\$ 24,900	\$ 49,800	\$ 49,900	\$ 99,600	\$ 49,800
2822477 Ontario Inc.	24,900	24,900	49,800	49,900	99,600	49,800
rk3 Global Services Incorporated	75,000	37,500	150,000	75,000	262,500	112,500
The CFO Centre Limited	46,800	24,860	38,800	24,860	144,590	77,405
Eurofins Experchem Laboratories Inc.	4,965	8,321	9,452	25,266	5,610	13,181
	\$176,565	\$120,481	\$297,852	\$224,926	\$611,900	\$302,686

All related party balances, except for the previously discussed Promissory Note, are unsecured and are non-interest bearing.

The transactions with the key management personnel and Directors are included in operating expenses as follows:

- (a) Management fees
 - Includes the management consulting services charged to the Company by the Directors, Sohil Mana and Randy Ko, and by shareholder, Woo Kim.
- (b) Consulting fees
 - Includes the services of Eurofins, of which Director, Sohil Mana is President.
 - Includes the consulting services of The CFO Centre, in which David Chan, CFO, serves as an independent contractor.

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole.

The remuneration of key management for the three and six months ended June 30, 2022 and June 30, 2021 are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
	\$	\$	\$	\$
Share based payments	17,740	-	17,740	16,173
	17,740	-	17,740	16,173

Except for share-based payments, all of the compensation to management was through Management and Consulting fees.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

CAPITAL MANAGEMENT

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

The Company manages its capital structure to maximize its financial flexibility and will make adjustments in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the three and six months ended June 30, 2022. The Company is not subject to externally imposed capital requirements.

FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Financial instruments

The Company's financial instruments consist of cash, deposits, other receivables, accounts payable and accrued liabilities, and private loan, which are all carried at amortized cost.

The carrying value of cash, deposits, other receivables, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The private loan value approximates its fair value due to the market rates of interest charged.

Financial risks

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

(a) Credit risk

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

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due.

Considering the available liquidity as at June 30, 2022, the expected burn rate from operations and future commitments, the Company's exposure to liquidity risk is considered high. The Company is seeking to raise funds through external financing as needed until revenues are sufficient to cover the operating requirements of the business.

The undiscounted cash flow requirements for financial liabilities as at March 31, 2022 are as follows:

	Carrying value	Total	Less than 1 year	1-3 years	4-5 years
Accounts payable and accrued liabilities	\$ 1,186,530	\$ 1,186,530	\$ 1,186,530	\$ -	\$ -
Accounts payable to related parties	611,900	611,900	611,900	-	-
Long term debt	773,653	811,494	361,384	450,110	-
Interest on long-term debt	-	-	47,203	24,413	2,771
Total	\$ 2,572,083	\$ 2,609,924	\$ 2,207,017	\$ 474,523	\$ 2,771

(c) Other risks

In March 2020, the World Health Organization declared coronavirus COVID-19 (“COVID-19”) a global pandemic which 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-imposing quarantine period and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. While the impact of COVID-19 on the Company has not been significant to date, the duration and longer-term impact of the COVID-19 outbreak is unknown currently, 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at each reporting date and the reported amounts of income and expenses during each reporting 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. However, actual outcomes can differ from these estimates.

The information about significant areas of estimation uncertainty considered by management in preparing these financial statements is as follows:

Property, Plant and Equipment

The estimated useful lives of property, plant and equipment are reviewed by management and adjusted if necessary. To estimate property, plant and equipment’s useful life, management must use its past experience with the same or similar assets and use professional judgement in its determination of useful life.

Going concern

The assessment of the Company's ability to continue as a going concern as discussed in note 1 involves judgment regarding future funding available for its operations and working capital requirements.

Inventory

Inventory is carried at the lower of cost or net realizable value. The determination of net realizable value

involves significant management judgement and estimates, including the estimation of future selling prices and potential obsolescence.

Share-based payments

The fair value of all share-based payments granted are determined using the Black-Scholes option pricing model which incorporates assumptions regarding risk-free interest rates, dividend yield, expected volatility, estimated forfeitures, and the expected life of the options. The Company has a significant number of options outstanding and expects to continue to make grants.

Deferred taxes

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or tax loss carry-forwards can be utilized. The recognition of temporary differences and tax loss carry-forwards is based on the Company's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized.

Deferred tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's judgment of the likelihood of a future outflow and estimates of the expected settlement amount, timing of reversals, and the tax laws in the jurisdictions in which the Company operates.

Valuation of embedded derivatives of financial instruments

The convertible debentures were accounted for as hybrid contracts where the initial carrying value of the host debt was the residual amount after separating the embedded derivatives. The host debt was carried at amortized cost and the embedded derivatives were accounted for as financial liabilities measured at fair value through profit and loss. The fair value of the liability at the time of issuance is calculated as the discounted cash flows for the convertible debenture using the effective interest rate. The fair value of the host debt by the discounted cash flow approach could be impacted by the Company's assumptions and estimates used in the calculation.

RISK FACTORS

Many factors could cause the Company's actual results, performance and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in greater detail under the section 17 "Risk Factors" in the Company's Listing Statement dated July 12, 2021 available at www.sedar.com, which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers:

- Regulatory risks, Regulatory Approvals, Permits, and Licenses
- Changes in Laws, Regulations and Guideline
- The Canadian Cannabis Market and Risks Related to the Cannabis Industries
- Unfavourable Publicity or Consumer Perception
- Successful Development of Brands, Products and Services
- Product Liability
- Product Recalls
- Competition
- Client Acquisition and Retention
- Changing Consumer Preferences
- Restrictions on Sales Activities
- Transportation Risks
- Market Unpredictability
- Business in A New Industry
- Potential Fraudulent or Illegal Activity

- Success of Quality Control Systems
- Effectiveness and Efficiency of Advertising and Promotional Expenditures
- Risks Related to the Operations of the Resulting Issuer Generally and Related to the Company's Facilities
- Environmental Risk and Regulation
- Successfully Promoting the Company's Brand
- Price of Raw Materials and Ability to Secure Biomass
- Price of Cannabis Derived End Products
- Limited Operating History
- The Company May Not Develop its Product and Service Offerings in a Manner that Enables it to be Profitable and Meet its Customers' Requirements
- The Company Growth Strategy may not be Successful
- Revenue may be Lower than Forecasted and Expenses may be Greater than Forecasted
- Fluctuations in the Company's operating results will be significant relative to its revenues
- Volatile Stock Price
- Energy Costs and Inflation
- Shelf Life Inventory
- Reliance on Management
- Potential Conflicts of Interest
- Insurance and Uninsured Risks
- Dependence on Suppliers and Skilled Labour
- Difficulty to Forecast
- Ability to Raise Additional Financing as Needed
- Management of Growth
- Internal Controls
- Stock Trading Liquidity
- Negative Cash Flow
- Dilution
- Potential Litigation
- Inability to Protect Intellectual Property Rights
- Reliance on Information Technology Systems and Cyberattacks
- Dividend Policy

SUBSEQUENT EVENTS

On August 25, 2022, the Company was required to pay \$141,693 on the Promissory note owing to a Director (see note 8), representing one half of the principal and accrued interest. The Company and the Director has agreed to extend the repayment date as the Company seeks to refinance its private loan.