HEMPSANA HOLDINGS LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023

REPORT DATE: August 29, 2023

This Management Discussion and Analysis (the "MDA") provides relevant information on the operations and financial condition of Hempsana Holdings Ltd. (the "Company" or "Hempsana") for the three and six months ended June 30, 2023 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, 2023, as well as the Company's audited consolidated financial statements and notes thereto for the years ended December 31, 2022 and 2021.

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, Hempsana 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 is 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.hempsana.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 Hempsana 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 contracting 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

On August 1, 2022, the Company completed a manufacturing and distribution agreement with MicroC45 to manufacture and distribute up to 1716 kilograms of CBD crude and/or distillate.

On August 2, 2022, the Company entered into a manufacturing and distribution agreement with Global Wellness Strategies to product high-quality consumer end-products in the health and wellness segment of the cannabis industry. Under the terms of the agreement, Hempsana has agreed to manufacture approved consumer products by GWS brands. Hempsana will be responsible for providing high-quality cannabis extracts, filling, packaging, and manufacturing services. A predetermined wholesale price will be earned as a fee by Hempsana for the manufacturing, shipping, and sale of the product; in addition, a brokerage fee will be earned on monthly revenue. GWS will receive revenues upon the sale of products to the various provincial cannabis regulators.

On September 28, 2022, the Company completed agreements with Mecidibis, and Hybrid Pharm, to distribute Feel Ventures' best-selling products, ufeelu Rest Drop and ufeelu Calm Drop, to each of their respective medical sales channels across Canada.

On August 15, 2022, the Company was approved to enter the Alberta market with AGLC providing their Cannabis Representative Registration Certificate which allows the Company to distribute finished cannabis products in Alberta upon AGLC approval of brands and products offered by the Company.

On September 8, 2022, the Company received its first purchase order in the dried flower and pre-roll category into Ontario Cannabis Store for one of 1337 Elite's premium brands focused on craft grown flower. The initial order will be the launch of 1337 Elite's Vie City Blunts: Powzer Runtz Pre-Rolls (5x07g).

On September 14, 2022, the Company received notification from Ontario Cannabis Store the approval to list ten new products onto Ontario Cannabis Store, "OCS" in Q1 of 2023. The products are spread across eight brands that Hempsana has distribution agreements and/or manufacturing agreements for products in the Beverage, Capsule, Edibles, Topicals, Concentrate and Vape segments of the cannabis market.

On September 15, 2022, the Company entered the Saskatchewan consumer market with the sale of Shyne Botanicals' topical products from their health and wellness focused brand, with initial orders for two of their best-selling products: 2:1 Muscle Rub and CBD Balm 3000.

On September 16, 2022, the Company commercialized Caviar Gold's patented technology that will provide capabilities at our facility to manufacture infused flower to support their premium infused pre-roll and moonrock product lines with initial production of the Berzerker and Snoogans pre-rolls to be manufactured in Q4 for distribution into Ontario and Saskatchewan.

On September 29, 2022, the Company completed manufacturing Cream of the Crop Therapeutics' best selling Terpene Rich Relief Cream which triggers the launch of their medically focused cannabis products.

The Company launched a total of seven new products in various provinces during the first quarter of 2023. These included two products for Caviar Gold: Ice Cube's Fryday Kush Distillate Infused Moonrock (45-50% THC 2 gram); and, Apple Drip OG Distillate Infused Pre-Roll (45-50% THC 1.3 gram). Four products for Craft Bangers: Tiki Head Hunter 3.5 and 7g Dried Flower (Sativa w/ 4% Terps); Tiki Head Hunger 1g Pre-Roll (Sativa with 4% Terps); Pablos Revenge 7g Dried Flower (Indica with CBG & 5% Terps); and Kush Hunter Distillate Infused Pre-Roll (35%THC w/Pablo's Revenge Strain). And a new product for Ufeelu: Rest Drops (CBD/CBN).

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 audited consolidated financial statements. Prior quarterly results were reclassified to correspond to the December 31, 2022 annual presentation. The following tables provide selected consolidated financial data for the periods indicated.

	For the three months ended		For the six months ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Net revenue	**$ 422,170**	$ 274,361	**$ 786,001**	$ 629,216
Cost of sales	**317,040**	237,235	**497,960**	416,252
Net loss	**(477,343)**	(536,197)	**(753,858)**	(778,572)
Loss per share - basic and diluted	**(0.01)**	(0.02)	**(0.03)**	(0.03)
Gross profit	**105,130**	37,126	**288,041**	212,964
Gross profit %	**24.9%**	13.5%	**36.6%**	33.8%

As at	**June 30, 2023**	December 31, 2022
Cash	**$ 776,706**	$ 90,624
Inventory	**117,065**	130,640
Other working capital	**564,493**	310,750
Total assets	**5,004,535**	3,793,873
Total non-current liabilities	**86,711**	187,613

	For the three months ended		For the six months ended	
Operating expenses	June 30, **2023**	June 30, 2022	June 30, **2023**	June 30, 2022
Management fees	**$ 104,583**	$ 124,800	**$ 179,583**	$ 237,358
Consulting fees	**106,208**	55,827	**174,294**	128,136
Wages	**96,321**	91,817	**181,941**	150,198
Depreciation and amortization	**82,861**	63,330	**123,497**	93,763
Insurance	**49,458**	20,568	**74,681**	39,380
Legal and professional fees	**22,563**	57,910	**62,287**	74,198
Office expenses	**16,539**	27,537	**43,085**	63,614
Other operating expenses	**26,481**	32,410	**64,820**	34,832
Investor relations and marketing	**11,230**	7,878	**16,815**	12,317
Other selling, general and administrative expenses	**20,035**	7,520	**28,984**	13,848
Share-based payments	**-**	37,616	**-**	37,616
Facility supplies	**5,751**	4,809	**19,155**	26,596
Auto expenses	**5,840**	5,480	**10,519**	10,155
License fees	**16,286**	8,472	**22,362**	17,222
Total operating expenses	**$ 564,156**	$ 545,974	**$ 1,002,023**	$ 939,233

Financial Results of Operations

Three months ended June 30, 2023 compared to three months ended June 30, 2022

The Company had $422,170 in net revenues for the three months ended June 30, 2023, compared to $274,361 for the three months ended June 30, 2022. During the quarter, the Company grew its contract manufacturing business which drove the sale of goods revenue significantly higher. A portion of the growth reflects a shift in our contract manufacturing business away from providing services for a set fee from third party brands to arrangements in which the Company earns variable revenues from sales to customers such as the OCS. Net loss for the three months ended June 30, 2023 was lower by $58,854, mainly due to the higher overall revenues.

The Company's gross profit margin was 24.9% for the three months ended June 30, 2023, which was the 11.4% higher than in the three months ended June 30, 2022. This increase was mainly due to more of our costs of sales coming from directly purchased raw materials and less from raw materials provided under cost sharing agreements, which tend to be more expensive.

Six months ended June 30, 2023 compared to six months ended June 30, 2022

The Company had $786,001 in net revenues for the six months ended June 30, 2023, compared to $629,216 for the six months ended June 30, 2022. Higher revenues from the sale of goods from contract manufacturing drove overall revenues higher this year. Net loss for the six months ended June 30, 2023 was lower by $24,714, mainly due to the Company generating higher revenues.

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, 2023. The information has been derived from our unaudited quarterly consolidated financial statements.

	For the three months ended							
	June 30, 2023	**March 31,, 2023**	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**
Revenue	$ 423,124	$ 378,009	$ 528,487	$ 251,631	$ 274,361	$ 354,855	$ 84,351	$ 30,364
Net loss	(477,343)	(276,515)	(211,065)	(482,327)	(536,197)	(242,375)	(417,309)	(2,460,126)
Loss per share - basic and diluted	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.01)	(0.02)	(0.11)

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2023, the Company had a working capital deficit of $2,732,144 (December 31, 2022 - $2,492,972) and has incurred losses since inception. The Company began generating revenues from its principal operations in 2022, and has been generating cash flows primarily from financing activities for the years ended December 31, 2022 and 2021. Considering the available liquidity, the expected burn rates from operations and future commitments, the Company's exposure to liquidity risk is considered high. 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 1, 2021, a Director of the Company agreed to finance the Company's private loan payments for three months. The total commitment was $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 $196,363 which comprised of the $189,108 previous loan payments made on the Company's behalf, as well as purchases for various equipment and services. As part of this additional financing from the Director, 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 was to be repaid on August 25, 2022, and the remaining half was due by August 25, 2023. On August 25, 2022, the Company and the Director agreed to extend the repayment date as the Company seeks to refinance its private loan. The Company can repay the promissory note early without penalty and it is secured by a second mortgage on the Company' land and building. As at June 30, 2023, the principal value of the promissory note was $310,138 (December 31, 2022 - $294,419) and the fair value of the promissory note was $309,912 (December 31, 2021 - $292,094).

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 2020. 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 loss and comprehensive loss. The loan bears no interest until December 31, 2022, and $10,000 loan forgiveness will be granted if repaid before this date. In January 2022 the Government of Canada announced an extension to the forgiveness repayment date to December 31, 2023. The Company recognized the interest-free benefit extension and has been recorded in the consolidated statements of loss and comprehensive loss as other income. The principal value of the government loan was $40,000 as at June 30, 2023 (December 31, 2021 - $40,000), and the fair value of the government 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.

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, 2023 and 2022.

	For the three months ended June 30,		**For the year ended June 30,**	
	2023	**2022**	**2023**	**2022**
Cash flows from (used in) operating activities	**$ 280,402**	$ (21,822)	**$ 286,519**	$ 59,317
Cash flows used in investing activities	**(407,741)**	-	**(407,741)**	-
Cash flows from (used in) financing activities	**853,047**	(41,668)	**807,474**	(82,113)
Net increase (decrease) in cash	**725,538**	(63,490)	**686,082**	(22,796)
Cash, beginning of year	**51,168**	86,883	**90,624**	46,189
Cash, end of period	**$ 776,706**	$ 23,393	**$ 776,706**	$ 23,393

Cash flows from operating activities during the three months ended June 30, 2023 were $302,054 higher than the three months ended June 30, 2022 primarily due to a lower net loss, an increase in accounts payable and an increase to accounts payable to related parties, offset by an increase in accounts receivables and prepaids, deposits.

Cash flows used in investing activities during the three months ended June 30, 2023 were higher by $407,741 compared to the three months ended June 30, 2022 due to purchases made for property plant and equipment. The Company invested in new processing equipment that will allow us to achieve higher purity levels in our products and services.

Cash flows from financing activities during the three months ended June 30, 2023 were $894,715 higher than the three months ended June 30, 2022 due to the closing of the private placement in June 2023.

Cash flows from operating activities during the six months ended June 30, 2023 were $227,032 higher than six months ended June 30, 2022 primarily due to a lower net loss, an increase in accounts payable and an increase to accounts payable to related parties, offset by an increase in accounts receivables and prepaids, deposits.

Cash flows used in investing activities during the six months ended June 30, 2023 were higher by $407,741 compared to the six months ended June 30, 2022 due to purchases made for property plant and equipment.

Cash flows from financing activities during the six months ended June 30, 2023 were $889,587 higher than the six months ended June 30, 2022 due to the closing of the private placement in June 2023.

SHARE CAPITAL

- On June 19, 2023, the Company successfully closed a private placement for gross proceeds of $900,000. In connection with the private placement, the Company issued 30,000,000 units comprised of one common share of the Company and one-sixth purchase warrant, for a total of 5,000,000 warrants. The Company intends to use the net proceeds for the purchase of equipment and for general operational and working capital purposes. Each purchase warrant entitles its holder to acquire one common share of the Company at an exercise price of $0.05 any time up to 12 months from the issuance date.
- As of the date of the MDA the Company has 54,129,323 issued and outstanding common shares.
- As at the date of the MDA the Company has 2,412,345 incentive stock options outstanding.
- As at the date of the MDA the Company has 5,000,000 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 and six months ended June 30, 2023 and 2022:

- 12813521 Canada Inc
- 2822477 Ontario Inc.
- rk3 Global Services Incorporated
- The CFO Center Limited
- 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, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022	**June 30, 2023**	December 31, 2022
12813521 CANADA INC	**$ -**	$ 24,900	**$ -**	$ 49,800	**$ 100,233**	$ 100,233
2822477 Ontario Inc.	**-**	24,900	**-**	49,800	**149,700**	149,700
rk3 Global Services Incorporated	**54,583**	75,000	**129,583**	150,000	**671,667**	412,500
The CFO Centre Limited	**48,700**	46,800	**95,500**	93,600	**301,165**	244,865
Eurofins Experchem Laboratories Inc.	**-**	4,965	**-**	9,452	**59,954**	59,954
	$103,283	$ 176,565	**$ 225,083**	$ 352,652	**$1,282,719**	$ 967,252

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:

- Management fees
  - Amounts charged by company 2822477 Ontario Inc., a company controlled by Director Sohil Mana, rk3 Global Services Incorporated, a company control by CEO and Director, Randy Ko, and 12813521 Canada Inc., a company controlled by shareholder, Woo Kim.
- 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, 2023 and June 30, 2022 are as follows:

	For the three months ended		For the six months ended	
	June 30, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Management and consulting fees	**$ 103,283**	$ 171,600	**$ 225,083**	$ 342,600
Share-based payments	**-**	17,740	**-**	17,740
	$ 103,283	$ 189,340	**$ 225,083**	$ 360,340

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 period ended June 30, 2023. 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

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company is also exposed to credit risk by holding cash in financial institutions. This risk is minimized by holding the funds in Canadian banks. The maximum exposure to credit risk as at June 30, 2023, is limited to the accounts receivable balance. In assessing the valuation of accounts receivable, the Company evaluates expected or possible changes in future events or market conditions to determine whether an allowance for doubtful accounts should be recorded or reversed.

(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, 2023, the expected burn rate from operations and future commitments, the Company's exposure to liquidity risk as at June 30, 2023 is considered high. The Company expects to address this risk by raising 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 June 30, 2023 are as follows:

	Carrying value	Total	Less than 1 year	1-3 years
Accounts payable	$ 2,357,634	$ 2,357,634	$ 2,357,634	$ -
Accounts payable to related party	1,282,719	1,282,719	1,282,719	-
Government grant	37,663	40,000	40,000	-
Promissory note	309,912	313,565	313,565	-
Long term debt	289,191	294,248	202,480	91,768
Interest on long-term debt	-	-	30,368	6,586
Total	$ 4,277,119	$ 4,288,165	$ 4,226,766	$ 98,354

(c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any instruments subject to the interest rate fluctuation. The Company's interest on its debt obligations is fixed to maturity.

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, 2022 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

<u>EVENTS AFTER THE REPORTING PERIOD</u>

5,000,000 warrants were exercised at an exercise price of $0.05 per share for total proceeds of 250,000.

The Company also repaid in full the Promissory Note that was due August 25, 2023