

HYTN INNOVATIONS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED
JUNE 30, 2022 AND 2021**

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of HYTN Innovations Inc. (the "Company"), is for the three and nine months ended June 30, 2022. It is supplemental to, and should be read in conjunction with, the Company's condensed consolidated interim financial statements and the accompanying notes for the three and nine months ended June 30, 2022 (the "interim financial statements"), as well as the audited financial statements and MD&A for the year ended September 30, 2021. Such financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 - Continuous Disclosure Obligations ("NI 51-102") of the Canadian Securities Administrators.

In this MD&A, reference is made to adjusted EBITDA which does not have any standardized meaning under IFRS and is not a measure of financial performance under IFRS, and therefore, may not be comparable to similar measures presented by other companies. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by operations. The Company calculates adjusted EBITDA as follows:

Net income (loss), plus (minus) the add-backs or reversals of the following: unrealized foreign exchange (gains) losses, interest (income) expense, tax (recovery) expense, depreciation expense, stock-based payments, finders' performance warrants, impairment, one-time transaction costs and certain one-time non-operating expenses, as determined by management.

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

The Board of Directors of the Company has approved this MD&A on August 26, 2022.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report are forward-looking statements, which reflect our management's expectations regarding our future growth, results of operations, performance and business prospects and opportunities including statements related to the development of existing and future property interests, availability of financing and projected costs and expenses. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits we will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this report. These assumptions, which include management's current expectations, estimates and assumptions about the global economic environment, the market price and demand for products and our ability to manage our operating costs, may prove to be incorrect. A number of risks and uncertainties could cause our actual results to differ materially from those expressed or implied by the forward-looking statements, including: a downturn in general economic conditions, the uncertainty of government regulation and politic, potential negative financial impact from regulatory investigations, claims, lawsuits and other legal proceedings and challenges, and other factors beyond our control.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these and other assumptions, risks and uncertainties are set out in the *Risk Factors* section of the MD&A.

DESCRIPTION OF BUSINESS

HYTN Innovations Inc. (formerly Mount Dakota Energy Corp.) (the “Company” or “HYTN Innovations”) was incorporated under the laws of British Columbia on October 22, 1990. The Company’s office is 12 East 4th Ave., Vancouver, British Columbia. The Company formulates, manufactures, markets, and sells premium cannabis goods. With the mission to be the leading provider of consistent, natural, and delicious cannabis products, the Company focuses its efforts on identifying category opportunities and takes an innovative approach to delivering elevated cannabis experiences to a discerning customer base.

On February 17, 2022, the Company completed the Securities Exchange Agreement (the “SEA”) with HYTN Beverage Corp. (“HYTN”), pursuant to which the Company purchased all of the outstanding securities of HYTN in exchange for common shares and common share purchase warrants of the Company issued on a one-for-one basis to the former security holders of HYTN (the “Reverse Take-Over” or “RTO”). The transaction was accounted for as a reverse acquisition, with HYTN identified as the acquirer. Consequently, the comparative figures reported are those of HYTN.

In addition, the Company entered into an amalgamation agreement (the “Amalgamation Agreement”) with 1306562 B.C. Ltd. (“Numberco”) and MMO Merger Holdings Inc., a wholly-owned subsidiary of the Company (“Subco”), pursuant to which Numberco and Subco amalgamated on February 17, 2022 under the Business Corporations Act (British Columbia) with the resulting entity (“Amalco”) continuing as a wholly-owned subsidiary of the Company (the “Amalgamation”, and together with the Reverse Take-Over, the “Corporate Transactions”).

The Corporate Transactions constituted a change of business for the Company, with the Company carrying on with the development and launch of HYTN’s sparkling tetrahydrocannabinol and cannabidiol beverage business. See Note 7 of the interim financial statements for further information regarding the Corporate Transactions.

On February 22, 2022, the Company changed its name from Mount Dakota Energy Corp. to HYTN Innovations Inc. and listed its Common Shares on the Canadian Securities Exchange (the “CSE”) under the symbol “HYTN”.

COVID-19

The COVID-19 pandemic continues to impact the global economic recovery. The current situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgements made by management in the preparation of these financial statements are subject to a higher degree of measurement uncertainty during this volatile period.

HIGHLIGHTS

On February 22, 2022, the Company was awarded a licence amendment by Health Canada allowing for the sale of cannabis extract, edible cannabis and cannabis topical products to provincially and territorially authorized retailers. The Company began accepting orders directly from provinces and territories on March 17, 2022. In addition, on February 22, 2022, the Company granted an aggregate of 265,000 options to purchase common shares to certain employees and consultants of the Company.

On February 24, 2022, the Company announced the appointment of Vic Neufeld, Dennis Staudt and Eli Dusenbery to the Board of Directors.

On February 28, 2022, the Company announced an agreement with Promethean Biopharma to develop, export and launched HYTN cannabis nano-emulsions into the Australian medical cannabis market.

On March 17, 2022, the Company announced that it began accepting orders directly from provincial buyers as the Company transitions away from its sales partnership with Emerald Health Therapeutics. As a result, the Company expects this to have an adverse effect on sales until the transition is complete heading into the fourth quarter of 2022.

On June 14, 2022, the Company announced that its wholly-owned subsidiary, HYTN Cannabis Inc., had received a licence amendment from Health Canada allowing for the cultivation of cannabis, which strengthens the Company’s regulatory approvals.

On August 23, 2022, the Company announced that its wholly-owned subsidiary, HYTN Cannabis Inc., had been awarded a licence by Health Canada allowing for the sale of cannabis for medical purposes (with possession). This announcement follows a list of licence achievements including a Standard Processing Licence, Cannabis Research Licence, an amendment for Sale of Recreational Cannabis and a Standard Cannabis Cultivation Licence at the Company's Kelowna production facility.

OVERALL PERFORMANCE

During the nine months ended June 30, 2022, the Company completed the construction of its Kelowna, British Columbia based production facility. At this point, the Company is now revenue generating and has begun to recognize revenue from the sale of cannabis infused beverages. The Company will continue pursuing craft inspired cannabis beverage, edibles and related activities.

At June 30, 2022, the Company was in a net asset position of \$3,014,664 (September 30, 2021 - net liability of \$8,879).

The assets consisted of the following:

As at	June 30, 2022	September 30, 2021
	\$	\$
Cash	1,496,265	264,062
Accounts receivable	195,792	33,291
Prepaid expenses	77,474	87,097
Inventory	362,622	122,840
Loan receivable	-	38,785
Property, plant and equipment	2,160,966	2,205,363
Deposits	87,290	10,450
TOTAL ASSETS	4,380,409	2,761,888

The liabilities consisted of the following:

As at	June 30, 2022	September 30, 2021
	\$	\$
Accounts payable and accrued liabilities	402,259	213,057
Loan payable	-	1,730,000
Lease liability	814,153	827,710
Decommissioning provision	149,335	-
TOTAL LIABILITIES	1,365,747	2,770,767

DISCUSSION OF OPERATIONS

The Company generated an operating loss of \$1,094,119 and \$2,369,829 for the three and nine months ended June 30, 2022, respectively.

For the Three and Nine Months Ended June 30,	Three Months Ended			Nine Months Ended		
	2022	2021	Change	2022	2021	Change
	\$	\$	\$	\$	\$	\$
Revenues	133,220	-	133,220	601,262	-	601,262
Cost of sales	(110,765)	-	(110,765)	(455,145)	-	(455,145)
GROSS MARGIN	22,455	-	22,455	146,117	-	146,117
EXPENSES						
Advertising and marketing	68,394	16,491	51,903	154,497	25,907	128,590
Consulting and salaries	333,039	69,715	263,324	758,342	187,218	571,124
Depreciation	54,404	271	54,133	162,723	813	161,910
Office and miscellaneous	137,577	19,409	118,168	298,705	31,660	267,045
Professional fees	164,120	4,038	160,082	327,122	9,463	317,659
Stock-based compensation	321,145	-	321,145	749,091	-	749,091
Transfer agent and filing fees	32,218	-	32,218	43,215	-	43,215
Travel	5,677	11,725	(6,048)	22,251	54,333	(32,082)
OPERATING EXPENSES	1,116,574	121,649	994,925	2,515,946	309,394	2,206,552
TOTAL OPERATING LOSS	(1,094,119)	(121,649)	(972,470)	(2,369,829)	(309,394)	(2,060,435)

- Revenues and cost of sales increased from the prior year comparable periods as a result of the Company completing the construction of its Kelowna, British Columbia based production facility. Revenues in the third quarter of 2022 were lower than revenues in previous quarters, due to no flower sales in the third quarter of 2022 and as a result of disruptions in the cannabis sales licensing process and supply chain as the Company transitioned away from its sales partnership with Emerald Health Therapeutics to obtaining it's direct sales licence. The Company acquired the required regulatory licences late in the third quarter of 2022. Cost of sales were higher in the third quarter of 2022 than prior quarters, as a result of the current quarter being impacted by higher costs related to production (i.e. labour costs, product costs).
- Advertising and marketing costs increased from the prior year comparable periods as a result of the expanded brand awareness, including vendor education and training costs.
- Consulting and salary costs increased from the prior year comparable periods as a result of the Company increasing operations.
- Depreciation increased from the prior year comparable periods as a result of the completion of the Kelowna production facility, at which point it has now become an asset in use.
- Office and miscellaneous expenses increased from the prior year comparable periods as a result of the Company increasing operations and additional insurance expense.
- Professional fees increased from the prior year comparable periods as a result of the legal and audit fees incurred to complete the Corporate Transactions.
- Stock-based compensation increased from the prior year comparable periods as a result of the stock-based compensation plans that were introduced concurrent with the Corporate Transactions. The resulting issuer, HYTN Beverage Corp., did not have a stock-based compensation plan prior to the Corporate Transactions.
- Transfer agent and filing fees increased from the prior year comparable periods as the resulting issuer, HYTN Beverage Corp., was a private entity prior to the Corporate Transactions.

Net loss and comprehensive loss for the three and nine months ended June 30, 2022 were \$1,116,097 and \$9,919,562, respectively and consisted of the extraordinary non-cash listing expense of \$7,539,014 related to the Corporate Transactions.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the eight most recently completed interim quarters:

	Third Quarter Ended June 30, 2022 \$	Second Quarter Ended March 31, 2022 \$	First Quarter Ended December 31, 2021 \$	Fourth Quarter Ended September 30, 2021 \$
Revenues	133,220	255,461	212,581	-
Net loss and comprehensive loss	(1,116,097)	(8,320,490)	(482,975)	(468,825)
Loss per share, basic and diluted	(0.02)	(0.22)	(0.03)	(0.04)

	Third Quarter Ended June 30, 2021 \$	Second Quarter Ended March 31, 2021 \$	First Quarter Ended December 31, 2020 \$	Fourth Quarter Ended September 30, 2020 \$
Revenues	-	-	-	-
Net loss and comprehensive loss	(126,003)	(86,160)	(100,798)	(57,910)
Loss per share, basic and diluted	(0.01)	(0.01)	(0.01)	(0.96)

On a quarter-by-quarter basis, losses fluctuated due to a number of factors including timing of operating activities due to the nature of a start up company. Revenues decreased during the third quarter ended June 30, 2022 primarily due to an interruption in its sales channel as it transitions away from its sales partnership with Emerald Health Therapeutics to accepting direct sales and having no flower sales during the quarter.

An analysis of the quarterly result shows that the Company has incurred mostly professional fees, consulting fees, listing expense, and office and miscellaneous cost that primarily relate to activities of those of a start-up entity.

LIQUIDITY

At June 30, 2022, the Company had cash of \$1,496,265 and a working capital surplus of \$1,620,950. The cash increased from September 30, 2021 mainly as a result of the Corporate Transactions.

Operating Activities

The Company used net cash of \$1,611,571 (2021 - \$271,967) in operating activities including costs associated with human capital and advertising during the nine months ended June 30, 2022. In addition, the build-up of inventory for sales and accounts receivable led to an increase in cash used.

Investing Activities

The Company received net cash of \$2,088,997 (2021 – used net cash of \$504,525) in investing activities during the nine months ended June 30, 2022. During the six months ended March 31, 2022, as a result of the Corporate Transactions, the Company acquired cash of \$2,207,323.

Investing activities also include amounts spent on leasehold improvements and equipment purchases for the Company's new Kelowna based facility. As of the date of this MD&A, the Kelowna facility is now operational with the initial production runs and shipments successfully completed.

Financing Activities

The Company received net cash of \$754,777 (2021 - \$645,895) from financing activities during the nine months ended June 30, 2022. The Company had received a total of \$2,570,000 (September 30, 2021 - \$1,730,000) pursuant to the promissory note agreement entered with 1306562 B.C. Ltd. for the purpose of pursuing the share exchange agreement with HYTN Innovation Inc. See Notes 6 and 7 of the interim financial statements for additional information.

OFF-BALANCE SHEET ARRANGEMENTS

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

CHANGES IN ACCOUNTING POLICIES

The MD&A has been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited annual financial statement for the year ended September 30, 2021. For changes in accounting policies, refer to Note 12 of the interim financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks which are discussed in detail in Note 4.9 of the Company's audited financial statements for the year ended September 30, 2021 and Note 11 of the interim financial statements.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

An analysis of material components of the Company's expenses is disclosed in the "Overall Performance" section above.

Adjusted EBITDA

The Company calculates adjusted EBITDA as net income (loss), plus (minus) the add-backs or reversals of the following: unrealized foreign exchange (gains) losses, interest (income) expense, tax (recovery) expense, depreciation expense, stock-based payments, finders' performance warrants, impairment, one-time transaction costs and certain one-time non-operating expenses, determined by management as for the three and six months follows:

For the Three and Nine Months Ended June 30,	Three Months Ended		Nine Months Ended	
	2022	2021	2022	2021
	\$	\$	\$	\$
Net loss and comprehensive loss	(1,116,097)	(121,649)	(9,919,562)	(309,394)
Depreciation	54,404	271	162,723	813
Stock-based compensation	321,145	-	749,091	-
Listing expense	-	-	7,539,014	-
Gain on debt settlement	-	-	(60,918)	-
Interest / accretion	21,978	-	71,666	-
Foreign exchange (gain) / loss	-	-	(29)	-
Adjusted EBITDA	(718,570)	(121,378)	(1,458,015)	(308,581)

DISCLOSURE OF OUTSTANDING SHARE DATA

a) Authorized and Issued Share Capital

The authorized share capital consists of an unlimited number of Class A common voting shares.

Common shares issued and outstanding as at June 30, 2022 and the date of this MD&A are 62,259,838 (September 30, 2021 - 15,532,000). The increase during the period was due to:

- The RTO resulted in the issuance of 2,666,136 common shares.
- The Corporate Transaction resulted in the issuance of 38,968,920 common shares.
- The issuance of 5,092,782 common shares to settle the indebtedness with a third party.

b) Options

A summary of the Company's options is as follows:

	Number Of Options	Weighted Average Exercise Price
Balance, September 30, 2021	-	-
Granted	1,990,000	\$0.35
Balance, June 30, 2022	1,990,000	\$0.35

At June 30, 2022, the following options were outstanding:

Number of Options	Exercise Price	Expiry Date
1,725,000	\$0.35	February 17, 2026
265,000	\$0.35	February 21, 2026
1,990,000		

At June 30, 2022, the weighted-average remaining life of the outstanding options was 3.80 years.

During the nine months ended June 30, 2022, the Company recognized \$291,447 in stock-based payment expense in connection with the granting and vesting of options.

The fair value of options granted during the nine-month period ended June 30, 2022 was determined using the following weighted average Black-Scholes Option Pricing Model assumptions:

	June 30, 2022
Share price	\$0.35 - \$0.39
Exercise price	\$0.35
Expected life	2 to 3 years
Volatility	100%
Risk-free interest rate	1.20% - 1.68%

As of the date of this MD&A, the Company had 1,990,000 options outstanding.

c) Restricted Share Units

The Company issued 1,900,000 restricted share units ("RSUs"), vesting over one year, with the first tranche vesting on the grant date, subject to certain performance and time-based vesting conditions, to directors, officers, and consultants

	RSUs
Balance, September 30, 2021	-
Granted	1,900,000
Balance, June 30, 2022	1,900,000

During the nine months ended June 30, 2022, the Company recognized \$457,644 in stock-based payment expense related to the granting and vesting of RSUs.

As of the date of this MD&A, the Company had 1,900,000 RSUs outstanding.

d) Share Purchase Warrants

A summary of the Company's warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2021	2,532,000	\$ 0.50
Cancelled – Corporate Transaction	(2,532,000)	\$ 0.50
Granted – Corporate Transaction	2,556,985	\$ 0.50
Balance, June 30, 2022	2,556,985	\$ 0.50

At June 30, 2022, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
2,532,000	\$0.50	February 1, 2023
24,985	\$0.50	September 10, 2022
2,556,985		

At June 30, 2022, the weighted-average remaining life of the outstanding warrants was 0.59 years.

As of the date of this MD&A, the Company had 2,556,985 RSUs outstanding.

e) Performance Warrants

As discussed in Note 7(a) of the interim financial statements, the Company issued an aggregate of 10,000,000 Performance Warrants to certain members of the management team, with each Performance Warrant exercisable upon vesting to acquire one Common Share at a price of \$0.05 per share for a period of five years from the date of issuance.

The Performance Warrants have the following vesting terms:

- 1) 5,000,000 Performance Warrants will vest and become exercisable upon the Company achieving aggregate gross revenue of \$5,000,000 over any period of 12 consecutive months following the closing of the RTO; and
- 2) 5,000,000 Performance Warrants will vest and become exercisable upon the Company achieving aggregate gross revenue of \$8,000,000 over any period of 12 consecutive months following the closing of the RTO.

No fair value has been recognized as a result of a probability of nil associated with progress towards the related performance-based milestones.

RISK FACTORS

Much of the information included in this report includes or is based upon estimates, projections or other forward-looking statements. Such forward-looking statements include any projections or estimates made by the Company and its management in connection with the Company's business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company's current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. Except as required by law, the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. The Company cautions readers of this report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements. In evaluating the Company, its business and any investment in its business, readers should carefully consider the following factors:

Risks Related to the Company's Business

The Company's future is dependent upon its ability to obtain financing and if the Company does not obtain such financing, the Company may have to cease its activities and investors could lose their entire investment.

There is no assurance that the Company will operate profitably or will generate positive cash flow in the future. The Company will require additional financing to sustain its business operations if it is not successful in earning revenues. The Company currently does not have any arrangements for further financing and it may not be able to obtain financing when required. The Company's future is dependent upon its ability to obtain financing. If the Company does not obtain such financing, its business could fail and investors could lose their entire investment.

The Company's directors and officers are engaged in other business activities and accordingly may not devote sufficient time to the Company's business affairs, which may affect its ability to conduct operations and generate revenues.

The Company's directors and officers are involved in other business activities. As a result of their other business endeavours, the directors and officers may not be able to devote sufficient time to the Company's business affairs, which may negatively affect its ability to conduct its ongoing operations and its ability to generate revenues. In addition, the management of the Company may be periodically interrupted or delayed as a result of its officers' other business interests.

The Company has no operating history

The Company has no operating history and may not succeed. The Company is subject to all risks inherent in a developing a business enterprise. The Company's likelihood of continued success must be considered in light of the problems, expenses, difficulties, undercapitalization, cash shortages, limitations with respect to personnel, financial and other resources, lack of revenues, complications, and delays frequently encountered in connection with the competitive and regulatory environment in which it operates. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

History of losses

The Company has incurred losses in the period from inception to June 30, 2022. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, it will not be profitable.

Reliance on management

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

Insurance and uninsured risks

The Company's business is subject to a number of risks and hazards including accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, delays in operations, monetary losses and possible legal liability.

Although the Company 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.

The Company will be an entrant engaging in a new industry

The infused cannabis industry is fairly new. There can be no assurance that an active and liquid market for shares of the Company will develop, and shareholders may find it difficult to resell their shares. Accordingly, no assurance can be given that the Company will be successful in the long term.

Dependence on suppliers and skilled labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to 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.

Reliance on key inputs

The Company's business is dependent on a number of key inputs including raw materials and supplies relating to its manufacturing operations including electricity, water, and other utilities. Any significant interruption or negative change in the availability or pricing of the supply chain for these key inputs could materially impact the Company's operations, financial condition, and operating results.

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 Company's products 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 number 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 its 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 Company's brand was subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company.

Product liability

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 sale of the Company's products would 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 the Company's 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 Company's products 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 results of operations and financial condition 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 potential products.

Shelf life of inventory

The Company holds finished goods and raw materials in inventory with a shelf life. The Company has a typical inventory turnover that varies and as a result, inventory may reach its expiration date and no longer be available for sale. As a result, inventory may have to be written down and could have a material adverse effect on the Company's business, financial condition, and results of operations.

Unfavourable publicity or consumer perception

Management of the Company believes the infused cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the recreational cannabis produced. 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 recreational 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 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 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 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 recreational cannabis in general, or the Company's proposed products specifically, or associating the consumption of 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 appropriately or as directed.

Difficulty to forecast

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

Management of growth

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

Internal controls

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

Litigation

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

Licenses and Permits

The operations of the Company require it to obtain licenses, and in some cases, renewals of existing licenses and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licenses and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licenses and permits. In addition, the Company will apply for, as the need arises, all necessary licenses and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company to obtain, sustain or renew any such licenses and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. Any loss of interest in any such required license or permit, or the failure of any governmental authority to issue or renew such licenses or permits upon acceptable terms, would have a material adverse impact upon the Company.

Legalization of Recreational Cannabis

Bill C-45 received Royal Assent and became law in Canada. Pursuant to Bill C-45, the importation, exportation, production, testing, packaging, labeling, sending, delivery, transportation, sale, possession or disposal of cannabis or any class of cannabis will remain subject to extensive regulatory oversight. Such extensive controls and regulations may significantly affect the financial condition of market participants and prevent the realization of such market participants of any benefits from an expanded market for recreational cannabis products.

Reliance on Licenses

The Company's operations depend on it being granted the appropriate licenses for its ability to store cannabis and other products derived therefrom and the licenses are subject to ongoing compliance, reporting requirements and renewal. Government licenses are currently, and in the future may be, required in connection with the Company's operations, in addition to other unknown permits and approvals which may be required. To the extent such permits and approvals are required and not obtained, the Company may be prevented from operating and/or expanding its business, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Promoting and Maintaining Brands

The Company believes that establishing and maintaining the brand identities of products is a critical aspect of attracting and expanding a large customer base. Promotion and enhancement of brands will depend largely on success in providing high quality products. If customers and end users do not perceive the Company's products to be of high quality, or if the Company introduces new products or enters into new business ventures that are not favorably received by customers and end users, the Company will risk diluting brand identities and decreasing their attractiveness to existing and potential customers. Moreover, in order to attract and retain customers and to promote and maintain brand equity in response to competitive pressures, the Company may have to increase substantially financial commitment to creating and maintaining a distinct brand loyalty among customers. If the Company incurs significant expenses in an attempt to promote and maintain brands, the business, results of operations and financial condition could be adversely affected.

Research and Development

Before the Company can obtain regulatory approval for the commercial sale of new products, it will be required to complete extensive trial testing to demonstrate safety and efficacy. Depending on the exact nature of trial testing, such trials can be expensive and are difficult to design and implement. The testing process is also time consuming and can often be subject to unexpected delays.

The timing and completion of trial testing may be subject to significant delays relating to various causes, including: inability to manufacture or obtain sufficient quantities of units and or test subjects for use in trial testing; delays arising from collaborative partnerships; delays in obtaining regulatory approvals to commence a study, or government intervention to suspend or terminate a study; delays, suspensions or termination of trial testing due to the applicable institutional review board or independent ethics board responsible for overseeing the study to protect research subjects; delays in identifying and reaching agreement on acceptable terms with prospective trial testing sites and subjects; variability in the number and types of subjects available for each study and resulting difficulties in identifying and enrolling subjects who meet trial eligibility criteria; scheduling conflicts; difficulty in maintaining contact with subjects after testing, resulting in incomplete

data; unforeseen safety issues or side effects; lack of efficacy during trial testing; reliance on research organizations to conduct trial testing, which may not conduct such trials with good laboratory practices; or other regulatory delays.

Difficulty in Developing Products

If the Company cannot successfully develop, manufacture and distribute new products, or if the Company experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Company may not be able to develop new market-ready commercial products at acceptable costs, which could adversely affect the Company's ability to effectively continue to compete in the market. A failure by the Company to achieve a low-cost structure through economies of scale would have a material adverse effect on the Company's commercialization plans and the Company's business, prospects, results of operations and financial condition.

Regulatory Risks

The cannabis industry is a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

This industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or its operations uneconomic. The cannabis industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants, and which cannot be reliably predicted.

Production Facility Risks

Our activities are focused on a single production and manufacturing facility, based in Kelowna, British Columbia. Adverse changes or developments affecting the facility, including but not limited to a breach of security, an outbreak of a communicable illness (such as COVID-19) or a force majeure event, could have a material and adverse effect on our business, financial condition, prospects and results of operations. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by regulatory agencies, could also have an impact on our ability to continue operating under our licenses or the prospect of renewing our licenses or could result in a revocation of our licenses. All facilities continue to operate with routine maintenance. We bear many, if not all, of the costs of maintenance and upkeep at our facilities, including replacement of components over time. Our operations and financial performance may be adversely affected if we and our facilities are unable to keep up with maintenance requirements. Certain contemplated capital expenditures in Canada will require Health Canada approval. There is no guarantee that Health Canada will approve the contemplated expansion and/or renovation, which could adversely affect our business, financial condition and results of operations.