



Rapid Dose Therapeutics Corp.

Management's Discussion and Analysis
August 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides discussion and analysis of the financial condition and results of operations of Rapid Dose Therapeutics Corp. (the "Company") for the 6 months ended August 31, 2020 and should be read in conjunction with the condensed interim consolidated financial statements and the accompanying notes which have been prepared in accordance with International Financial Reporting Standards.

The MD&A is the responsibility of management and is dated as of November 16, 2020.

All dollar amounts in the MD&A are stated in Canadian dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at www.sedar.com and the Company's website at www.rapid-dose.com.

Forward-Looking Statements

Certain statements in this MD&A may contain "forward-looking information," within the meaning of applicable securities laws, including the "safe harbour provisions" of the Securities Act (Ontario) with respect to the Company. Such statements include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and our objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to our plans and objectives, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities. These statements are subject to certain risks, assumptions and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words "believe", "plan", "intend", "estimate", "expect", "anticipate" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking statements. We have based these forward-looking statements on our current views with respect to future events and financial performance. With respect to forward-looking statements contained in this MD&A, the Company has made assumptions and applied certain factors regarding, among other things: future product pricing; costs of inputs; its ability to market products successfully to its anticipated clients; reliance on key personnel; regulatory requirements; the application of federal and state environmental laws; and the impact of increasing competition. These forward-looking statements are also subject to the risks and uncertainties discussed in the "Risks Factors" section of the CSE Listing Statement as filed on SEDAR and elsewhere in this MD&A and other risks detailed from time to time in the publicly filed disclosure documents of the Company which are available at www.sedar.com and on the Company's website at www.rapid-dose.com. Forward-looking statements are not a guarantee of future performance and involve risks, uncertainties and assumptions which could cause actual results to differ materially from the conclusions, forecasts or projections anticipated in these forward-looking statements. Because of these risks, uncertainties and assumptions, the reader should not place undue reliance on these forward-looking statements. The Company's forward-looking statements are made only as of the date of this MD&A and, except as required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements to reflect new information, future events or circumstances.

See page 11 for Material assumptions and risk factors for forward-looking statements.

The Company

The Company is a public Canadian life-sciences corporation that provides innovative, proprietary, drug-delivery technologies designed to improve outcomes and quality of lives. The Company owns a proprietary oral fast-dissolving drug delivery system, QuickStrip™, which is capable of rapidly releasing active ingredients into the blood stream which includes a list of pharmaceuticals, emulsified oils and over-the-counter medicines without being degraded or modified by first pass metabolism in the liver. The Company also provides product innovation, production and consultation to the nutraceutical, cannabis healthcare and pharmaceutical manufacturing industries.

The Company is a reporting issuer in Ontario, Alberta and British Columbia and its common shares are listed for trading on the Canadian Securities Exchange ("CSE") under the trading symbol "DOSE".

Overall Performance

The Company is an early stage company and has just started to recognize revenue from distribution agreements for nutraceutical products. For the 6 months ended August 31, 2020, the Company recognized revenue of \$3,816 and incurred a net loss of \$937,375 and, as at August 31, 2020, the Company had a working capital deficit of \$3,018,330.

The Company expects losses to continue in the near term as it completes the final stages of its preparations for global product launches in nutraceuticals, pharmaceuticals and cannabis. The continued operation of the Company is dependent upon the support of its creditors and the Company's ability to secure advances from related parties and debt and equity financings to meet its existing obligations and finance its operations. The Company received proceeds of \$299,000 in respect of a proposed private placement of units and a commitment for a loan facility of \$3,000,000 (see page 2, *Capital transactions*). The Company continues to actively work to secure advances from related parties and to complete debt and equity financings, however, there is no assurance that the Company will be successful in these efforts.

Cease trade order

Due to circumstances beyond its control created by and relating to the COVID-19 pandemic, the Company was not able to file its audited consolidated financial statements and management's discussion & analysis for the year ended February 29, 2020 together with officers' certificates (collectively, the "Annual Filings") by its usual deadline of June 28, 2020, nor by the extended deadline of August 12, 2020 allowed by the Ontario Securities Commission and other members of the Canadian Securities Administrators for "Issuers" in the Canadian securities industry to complete annual and quarterly statutory filings (the "Extension"). On August 20, 2020, the Ontario Securities Commission issued a "cease-trade order" prohibiting any trading in the Company's securities, whether direct or indirect, by anyone in Ontario or in any other province or territory of Canada (the "CTO").

Management expects that the completion of the Annual Filings will automatically initiate a review process by the Ontario Securities Commission without any application by the Company and the CTO should be revoked promptly provided the Company has filed all of its interim financial statements and corresponding management's discussion & analysis together with officers' certificates that have subsequently become due.

On November 16, 2020, the Company filed the Annual Filings and the interim financial statements, management's discussion & analysis together with officers' certificates for the 3 months ended May 31, 2020 and 6 months ended August 31, 2020.

Capital transactions

Subsequent to February 29, 2020, the Company received proceeds of \$299,000 in respect of a proposed private placement of units at a price of \$0.25 per unit. Each unit consists of one common share and one warrant entitling the holder to purchase one common share for \$0.40 for 2 years after the closing date of the private placement. The proposed private placement has not yet closed.

On August 24, 2020, with the assistance of the Company's financial advisor, Leede Jones Gable Inc., the Company received a commitment for a loan of \$3,000,000 which will be: (a) interest-bearing at the rate of 12% per annum on the initial advances of \$1,500,000 and 10% per annum on the remaining \$1,500,000 payable quarterly in arrears; (b) secured by a general security agreement over all of the Company's assets; (c) repayable by the Company at any time; and (d) due on August 24, 2023. The Company received an advance of \$500,000 and the remaining \$2,500,000 of the loan facility is available in tranches of \$500,000 within 15 days of notice provided by the Company to the lender. The funds are to be used to support the rapid expansion into new markets, the roll out of the Company's production, provide operating capital for its trade credit and to finance special projects in conjunction with the Company's strategic business growth strategies.

On March 5, 2020, the Company announced that it entered into an agreement for a \$10,000,000 equity financing facility (the "Investment Agreement") with a single institutional investor. On March 11, 2020, the agreement was rescinded due to the COVID-19 pandemic and the decline in the stock market.

COVID-19

Results for the 3 months ended May 31, 2020 were affected by COVID-19. In March 2020, curtailed its operations and issued temporary lay-off notices to almost all of the Company's employees. Since then, the Company has recalled most of the laid-off employees and hired additional personnel and is operating while carefully considering the safety of its employees and customers. The Company continues to monitor the situation closely and is prepared to respond quickly and appropriately to the rapidly changing nature of this pandemic.

COVID-19 has the following effects on the Company:

- a) delayed the efforts of Company to generate revenues by adversely affecting the initiatives of the Company and its customers to obtain regulatory approvals, manufacture and introduce QuickStrip™ products to the market.
- b) COVID-19 related decline in stock market resulted in a financing commitment to be rescinded (see page 2, *Capital transactions*).

- c) the Company was not able to file its audited financial statements and management's discussion & analysis for the year ended February 29, 2020 together with officers' certificates (collectively, the "Annual Filings") by its usual deadline of June 28, 2020, nor by the extended deadline of August 12, 2020 (see page 2, *Cease trade order*).

The Company has received Canada Emergency Commercial Rent Assistance of \$48,825 and Canada Emergency Wage Subsidy of \$288,187.

Distribution agreements for nutraceutical products

The Company also generates revenue from Distribution Agreements for QuickStrip™ nutraceutical products. For the 3 months ended May 31, 2020, the Company recorded revenue of \$237 for the sale of nutraceutical products. The Company currently has distribution agreements with the following companies:

Distributor	Date of agreement	Term	Territories
TFB Associates Limited	April 4, 2019	2 years	Canada
Ukraine Pharma	June 26 2019	1 year, renewed	Ukraine, Latvia, Russia, Belarus, Armenia, Azerbaijan, Bangladesh, Jordan, Kazakhstan, Kyrgyzstan, and Uzbekistan
Perennial Brands	February 27, 2020	3 years	Canada, United States and India

TFB Associates Limited

TFB distributes QuickStrip™ nutraceutical products to over 300 stores, however, retail store sales have declined due to COVID-19.

Ukraine Pharma

Ukraine Pharma has signed a purchase order for US\$4,000,000 of QuickStrip™ nutraceutical products. On January 26, 2020, Ukraine Pharma made a deposit payment of US\$35,000 and the Company is currently waiting for Ukraine Pharma to obtain import regulatory approvals prior to the Company proceeding to complete the purchase order. Regulatory approvals have been delayed due to COVID-19.

Perennial Brands

On March 31, 2020, the Company announced the completion of its first shipment of QuickStrip™ nutraceutical products for distribution by Peter Pan Brands across Ontario in multiple retail locations.

Managed Strip Services Agreements for cannabis products

The Company expects to generate revenue from Managed Strip Services Agreements (each a "MSSA") where the Company grants licensees the right to use the Company's QuickStrip™ technology in return for a payment due on signing of the MSSA, a payment due on commissioning of equipment and ongoing payments based on production in their licensed territory.

The Company has MSSAs with the following companies:

Licensee	Territories
Chemosis International Inc.	Puerto Rico; California and Michigan in the United States
Flower One Holdings Inc.	Nevada in the United States

The MSSA with Aphria Inc. ("Aphria") signed on November 1, 2018 was amended to end Aphria's exclusivity in Canada and global exclusive preferred vendor status which will allow the Company to reach more Canadian medical and recreational users than available through a single customer strategy and enter new markets with other licensed producers. Aphria returned the QuickStrip™ production equipment systems and the Company will produce QuickStrip™ products for Aphria (see page 4, *Manufacturing agreements*) in the Company's Burlington, Ontario facility.

The installation and commissioning of QuickStrip™ production equipment systems have been completed in Puerto Rico and Nevada. It was anticipated that upon commissioning of the equipment, the licensee would commence production which would result in monthly payments in excess of the minimum monthly payments. Some production has been completed; however, full-scale production has not commenced due to a variety of unexpected reasons out of control of the Company, including delays caused by COVID-19, customer delays in obtaining regulatory product and facility approvals, time required to introduce the QuickStrip™ to the market and in the case of Puerto Rico, a hurricane and earthquake in late 2019. The Company is having discussions with licensees with respect to the monthly minimum payments owing due to the lag in commencement of full-scale production which was not anticipated by the licensees at the time of signing of the MSSAs. The Company is working with its licensees to maximize the earliest possible time to market.

Manufacturing agreements

The Company has begun to scale up the manufacture of private label QuickStrip™ products for the Canadian market at its facilities located in Burlington, Ontario.

The Company has manufacturing agreements with the following companies:

Licensee	Date of agreement	Term	Products	Territory
Thrive Cannabis	August 8, 2019	5 years	CBD and THC products for medical and recreational markets	Canada
Aphria Inc.	June 3, 2020	5 years	CBD and THC products for medical and recreational markets	Canada

Thrive

The Company has commenced production of CBD and THC QuickStrip™ products which will be introduced on a regional basis in Canada under the Being brand. The initial delivery to Thrive of QuickStrip™ products for commercial sales was made on October 23, 2020.

Changes in key management personnel

Date	Change
May 29, 2020	Ken Fox resigned as a director.
August 13, 2020	Peter Thilo Hasler was appointed as a director.

Research

July 21, 2020, the Company announced the commencement of COVID-19 vaccine research in conjunction with McMaster University and the team lead by Drs. Alex Adronov, James Mahony and Mark Larché. The federally-funded project tests the use of QuickStrip™ for administering vaccines orally as a convenient and safe alternative to injection with needles, the currently accepted delivery format for most vaccines.

On June 19, 2020, the Company filed a non-provisional patent with the USPTO for an “Apparatus for and method of converting CBD and/or CBD derivatives to at least one other type of cannabinoid and/or cannabinoid derivative such as THC”. In conjunction with McMaster University and the team lead by Dr. James McNulty, RDT has discovered a new and efficient way to create THC from CBD. This selective method can generate delta 8 or delta 9 THC.

Insurance

Due to the number and size of claims against companies involved in the cannabis industry, a number of insurers providing directors and officers liability insurance (“D&O”) have decided not to insure businesses operating in the Company’s sector. On December 23, 2019, the Company’s insurer gave notice that they would not renew the Company’s D&O policy due to the fact the insurer is exiting the sector generally and the Company’s policy expired on February 21, 2020. The Company is working with its insurance broker to secure a new insurer; however, there is no assurance that the Company will be able to secure coverage at a reasonable price.

Risks and Uncertainties

There are numerous and varied risks, known and unknown, that may prevent the Company from achieving its goals. If any of these risks occur, the Company’s business, financial condition or results of operation may be adversely affected.

Going concern

The Company is an early stage company and has just started to generate revenue. As at May 31, 2020, the Company had a working capital deficit of \$3,300,765 and for the 3 months ended May 31, 2020, the Company recorded a net loss of \$495,249. The working capital deficit and losses limit the Company’s ability to fund operations. As a result, there is significant doubt about the Company’s ability to continue as a going concern.

The continued operation of the Company is dependent upon the continuing support of its creditors and the Company’s ability to secure advances from related parties and debt and equity financings to meet its existing obligations and finance its operations. The Company is actively seeking to raise the necessary advances and debt and financings; however, there is no assurance that the Company will be successful in these efforts.

The Company received proceeds of \$299,000 in respect of a proposed private placement of units and a commitment for a loan facility of \$3,000,000 (see page 2, *Capital transactions*).

Limited operating history

Because the Company has a limited operating history and is in an emerging area of business, investors should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues;
- risks relating to different regulatory regimes in different jurisdictions; and
- risks relating to evolving and uncertain regulatory regimes.

The Company's future growth will depend substantially on its ability to address these and other risks described in this section and in its other continuous disclosure materials available on SEDAR and on the Company's website. If it does not successfully address these risks, its business may be significantly adversely affected.

Managing growth

In order to manage growth and change in strategy effectively, the Company must: (a) maintain adequate systems to meet customer demand; (b) expand sales and marketing, distribution capabilities and administrative functions; (c) expand the skills and capabilities of its current management team; and (d) attract and retain qualified employees. The inability of the Company to deal with this growth may have a material adverse effect on its business, financial condition, results of operations and prospects.

Competition

Due to the nature of the Company's proprietary delivery system and the multiple barriers of entry, the Company has very few competitors in the nutraceutical and pharmaceutical industries in which the Company operates, the Company anticipates very little initial competition from large, well entrenched industry competitors. As well, because of the early stage of the cannabis industry in which the Company will operate, the Company expects to have very limited competition from new entrants. To become and remain competitive, the Company will continue its research and development, marketing, sales and support. The Company does not currently have sufficient resources to finance all of the research and development, marketing and sales support efforts which may be required to gain significant market penetration in each of its vertical markets. The inability to remain competitive as the product lines mature could materially affect the business, financial condition and results of operations of the Company.

Retention, acquisition and integration of skilled personnel

The loss of any member of the Company's management team could have a material adverse effect on its business and results of operations. In addition, the inability to hire new personnel and the increased costs of hiring new personnel could have a material adverse effect on the Company's business and operating results. At present and for the near future, the Company will depend upon a relatively small number of key employees to develop, market, sell and support its products. The expansion of marketing and sales of its products will require the Company to find, hire and retain additional capable employees who can understand, explain, market and sell its products. There is intense competition for capable personnel and the Company may not be successful in attracting, training, integrating, motivating or retaining new personnel, vendors, or subcontractors for these required functions. New employees often require significant training and, in many cases, take significant time before they achieve full productivity. As a result, the Company may incur significant costs to attract and retain employees, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards, and may lose new employees to its competitors or other companies before it realizes the benefit of its investment in recruiting and training them. In addition, as the Company moves into new jurisdictions, it will need to attract and recruit skilled employees in those areas.

Legal proceedings

From time to time, the Company may be a party to legal and regulatory proceedings, including matters involving governmental agencies, entities with whom it does business and other proceedings arising in the ordinary course of business. The Company will evaluate its exposure to these legal and regulatory proceedings and, where appropriate, establish reserves for the estimated liabilities in accordance with International Financial Reporting Standards. Assessing and predicting the outcome of these matters involves substantial uncertainties. Unexpected outcomes in these legal proceedings, or changes in management's evaluations or predictions and accompanying changes in established reserves, could have an adverse impact on the Company's financial results.

Regulatory compliance risks

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate its business. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by local governmental authorities. The impact of the compliance regime, any delays in obtaining, or failure to obtain or keep the regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Reliance on securing and maintaining agreements with licensed partners

The Company must secure service agreements with licensees that have obtained the requisite licenses with the appropriate regulatory authorities in the targeted jurisdictions to grow, store and sell cannabis products ("Licensees"). The failure of a Licensee to comply with the requirements of their license or to maintain their license would have a material adverse impact on the business, financial condition and operating results of the Company. There can be no guarantee that the applicable licenses will be maintained by Licensees or granted to other prospective Licensees in the future.

Product liability

As a distributor of products designed to be consumed by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused damages, loss or injury. In addition, the sale of the Company's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. 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 health risks, possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could: i) result in increased costs; ii) adversely affect the Company's reputation with its Licensed Partners and consumers generally; and iii) have a material adverse effect on the results of operations and financial condition of the Company. There can be no assurance 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.

Intellectual property

The Company has certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patent applications and proprietary processes. The Company relies on this intellectual property, know-how and other proprietary information, and generally requires employees, consultants and suppliers to sign confidentiality agreements. The Company requires all customers, partners and organizations that receive any materials from the Company to sign a Material Transfer Agreement acknowledging the Intellectual property confidentiality, Company ownership and authorized usage. However, any confidentiality agreement may be breached, and the Company may not have adequate remedies for such breaches. Third parties may independently develop substantially equivalent proprietary information without infringing upon any of the Company's proprietary technology. Third parties may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on the Company's business, results of operations or prospects.

Unfavourable publicity or consumer perception

The success of the Company's products may be significantly influenced by the public's perception of marijuana's medicinal applications. Medical marijuana is a controversial topic, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to medical marijuana will be favourable. The medical marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion relating to the consumption of medical marijuana may have a material adverse effect on our operational results, consumer base and financial results.

Consumer acceptance

There can be no assurance that the Company will develop any product that will be met with widespread consumer acceptance. Both new and established products fail to generate consumer interest on a regular basis. There is no assurance that the Company's products will be successfully adopted by consumers at one time or will still be in demand in the future. If the Company cannot develop and sell products in commercial quantities, the Company's current strategy will fail.

Insurance coverage

The Company's production is, in general, subject to different risks and hazards, including adverse weather conditions, fires, other natural phenomena, industrial accidents, labour disputes, changes in the legal and regulatory framework applicable to the Company and environmental contingencies. Although management of the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

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, contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling 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, remedial action and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing 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 the Company is subject to recall, the image of 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. Additionally, product recalls may lead to increased scrutiny of the Company's operations by regulatory agencies, requiring further management attention, potential loss of applicable licenses and potential legal fees and other expenses.

Limited avenues to market and promote products

To be successful, the Company's business must be successfully marketed. The market for the Company's products and services has and is expected to grow significantly and may require substantial sales and marketing capability. The Company will be dependent on independent parties to market its products and services. There can be no assurance that the Company can continue to market or can enter into satisfactory arrangements with third parties to continue to market its products and services in a manner that would assure its growth and acceptance in the marketplace.

Global economy

Financial markets are influenced by the economic and market conditions in other countries, including the United States and other global markets. Although economic conditions in these countries may differ significantly from economic conditions in Canada, investor reactions to developments in these other countries may substantially affect the capital flows into and the market value of securities of issuers with operations in the United States and Canada.

Access to capital

In executing its business plan, the Company makes, and will continue to make, substantial investments and other expenditures related to acquisitions, research and development and marketing initiatives. Since its formation, the Company has financed these expenditures through equity offerings. The Company will have further capital requirements and other expenditures as it proceeds to expand its business and/or take advantage of opportunities for acquisitions or other business opportunities that may be presented to it. The Company may incur major unanticipated liabilities or expenses. The Company can provide no assurance that it will be able to obtain financing to meet its growth needs.

Foreign sales and currency risks

The Company's functional currency is denominated in Canadian dollars. The Company currently expects future sales will be denominated in Canadian and U.S. dollars and may, in the future, have sales denominated in the currencies of additional countries. In addition, the Company incurs the majority of its operating expenses in Canadian dollars. In the future, the proportion of the Company's sales that are international are expected to increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition and results of operations. The Company has not previously engaged in foreign currency hedging. If the Company decides to hedge its foreign currency exposure, it may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide the Company from foreign currency fluctuations and can themselves result in losses.

Tax risks

The Company will operate and will be subject to income tax and other forms of taxation (which are not based upon income) in multiple tax jurisdictions. Taxation laws and rates which determine taxation expenses may vary significantly in different jurisdictions, and legislation governing taxation laws and rates is also subject to change. Therefore, the Company's earnings may be impacted by changes in the proportion of earnings taxed in different jurisdictions, changes in taxation rates, changes in estimates of liabilities and changes in the amount of other forms of taxation. The Company may have exposure to greater than anticipated tax liabilities or expenses. The Company will be subject to income taxes and non-income taxes in a variety of jurisdictions and its tax structure is subject to review by both domestic and foreign taxation authorities and the determination of the Company's provision for income taxes and other tax liabilities will require significant judgment.

Repatriation of profits

As a company holding the stock of operating subsidiaries in other jurisdictions, it is anticipated that a significant amount of the Company's funds will be generated by the Company's operating subsidiaries. The Company's subsidiaries are subject to requirements of various regulatory bodies, both domestically and internationally. Accordingly, if the Company's operating subsidiaries are unable, due to regulatory restrictions or otherwise, to pay dividends and make other payments to the Company when needed, the Company may be unable to satisfy the Company's obligations when they arise.

Results of operations

	3 months ended August 31,		6 months ended August 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue				
Service fees	–	893,953	–	893,953
Nutraceuticals	3,579	20,539	3,816	36,726
	3,579	914,492	3,816	930,679
Cost of sales				
Nutraceuticals	424	5,131	424	9,182
Gross margin	3,155	909,361	3,392	921,497
Operating expenses				
Personnel	177,067	697,288	235,265	1,460,434
Stock-based compensation	–	441,790	–	2,201,774
General and administrative	68,552	247,178	119,793	342,787
Professional fees	(21,919)	81,574	41,172	171,609
Sales and marketing	5,145	112,902	5,647	406,488
Research and development	30,873	43,362	120,343	94,494
Travel	5,452	120,163	8,884	170,042
Depreciation	172,659	(106,606)	351,333	(19,968)
Interest	27,746	–	51,781	–
	465,575	1,637,651	934,219	4,827,660
Loss from operations	(462,420)	(728,290)	(930,827)	(3,906,163)
Non-operating expenses				
Realized loss on short-term investments	–	(26,569)	–	(1,451)
Unrealized loss on short-term investments	–	(236,561)	–	(257,714)
Write-down of inventory	–	–	(19,389)	–
Foreign exchange gain	20,300	66,469	12,842	61,431
Gain on sale of equipment	–	(10,416)	–	85,808
Interest income	–	7,145	–	17,169
Other income	–	25,561	–	25,561
Net loss	(442,119)	(902,661)	(937,375)	(3,975,359)

6 months ended August 31

During the 6 months ended August 31, 2020, the Company incurred a net loss of \$937,375 compared to a net loss of \$3,975,359 for the comparative period in the previous year. The decrease in the loss reflects the following factors:

- a) for the 6 months ended August 31, 2019, on the completion of its performance obligation to install equipment pursuant to Managed Strip Services Agreements (each a “MSSA”), the Company recognized licence fees of \$893,953 as revenue. Subsequent to August 31, 2019, the Company reviewed its policy for the recognition of revenue and IFRS 15, Revenue from Contracts with Customers and determined that amounts earned for signing fees and fees for the installation of equipment in accordance with the MSSA should be deferred and recognized as revenue over time, commencing as the Company completes all of its performance obligations under each MSSA. Accordingly, the Company reversed the revenue of \$893,953 back to deferred revenue in the interim consolidated financial statements for the 9 months ended November 30, 2020.
- a) a reduction in personnel to \$235,265 from \$1,460,434 in the comparative period of the previous year which reflects the layoff of employees as a result of COVID-19, reductions in management compensation to conserve cash and the receipt of grants of \$94,852 received from the National Research Council of Canada Industrial Research Assistance Program.
- b) no stock-based compensation incurred in the current year compared to \$2,201,774 in the comparative period in the previous year.
- c) reductions in general and administrative, professional fees, sales and marketing and travel in an effort to conserve cash.

3 months ended August 31

During the 3 months ended August 31, 2020, the Company incurred a net loss of \$442,119 compared to a net loss of \$902,662 for the comparative period in the previous year. The decrease in the loss reflects the following factors:

- a) for the 6 months ended August 31, 2019, on the completion of its performance obligation to install equipment pursuant to Managed Strip Services Agreements (each a “MSSA”), the Company recognized licence fees of \$893,953 as

revenue. Subsequent to August 31, 2019, the Company reviewed its policy for the recognition of revenue and IFRS 15, Revenue from Contracts with Customers and determined that amounts earned for signing fees and fees for the installation of equipment in accordance with the MSSA should be deferred and recognized as revenue over time, commencing as the Company completes all of its performance obligations under each MSSA. Accordingly, the Company reversed the revenue of \$893,953 back to deferred revenue in the interim consolidated financial statements for the 9 months ended November 30, 2020.

- b) a reduction in personnel to \$235,265 from \$1,460,434 in the comparative period of the previous year which reflects the layoff of employees as a result of COVID-19, reductions in management compensation to conserve cash and the receipt of grants of \$94,852 received from the National Research Council of Canada Industrial Research Assistance Program.
- c) no stock-based compensation incurred in the current year compared to \$2,201,774 in the comparative period in the previous year.
- d) reductions in general and administrative, professional fees, sales and marketing, research and development and travel in an effort to conserve cash.

Summary of Quarterly Results

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021
	\$	\$	\$	\$	\$	\$	\$	\$
		(note 1)	(note 2)	(note 3)	(note 3)			
Revenue	–	–	16,187	914,492	(890,473)	61,292	237	3,579
Net loss								
- Total	1,005,918	9,589,581	3,072,708	902,661	3,018,451	970,797	495,249	442,119
- Per share	0.02	0.12	0.04	0.01	0.04	0.01	0.01	0.01

Notes

- Q4 2019 included listing expense of \$8,206,424 related to the reverse takeover transaction between the Company and Acme Resources Ltd.
- Q1 2020 included stock-based compensation of \$1,739,984.
- In Q2 2020, the Company recognized signing fees and fees for the installation of equipment of \$893,952 as revenue on the completion of its performance obligation to install equipment. The Company has reviewed its policy for the recognition of revenue and IFRS 15, *Revenue from Contracts with Customers* and determined that amounts earned for signing fees and fees for the installation of equipment in accordance with the MSSA should be deferred and recognized as revenue over time, commencing as the Company completes all of its performance obligations under each MSSA. Accordingly, in Q3 2020, the Company reversed the revenue of \$893,952 back to deferred revenue. Q2 2020 also included stock-based compensation of \$441,790.

Liquidity and Capital Resources

As the Company is an early stage company and has just started to generate revenue, the Company has financed its operations with equity financings.

At August 31, 2020, the Company had cash of \$227,604, a working capital deficit of \$3,018,330 and for the 6 months ended August 31, 2020, the Company incurred a loss of \$937,375. Working capital included cash of \$227,604, amounts receivable of \$93,209, accounts payable and accrued liabilities of \$1,935,752 and due to a related party of \$129,000.

For the year ended February 29, 2020, the Company had an average monthly cash burn rate of approximately \$380,000. For the year ended February 28, 2021, the Company estimates that its monthly cash burn rate of \$126,500. For the 6 months ended August 31, 2020, the Company had an average monthly burn rate of approximately \$100,000 per month.

As at August 31, 2020, management believed that the Company did not have sufficient liquidity and capital resources to meet its existing obligations, to fund its working capital requirements and to execute its business plan. Accordingly, the Company was dependent upon the support of its creditors and the Company's ability to secure advances from related parties and to complete debt and equity financings.

The Company continues to actively work to secure advances from related parties and to complete debt and equity financings, however, there is no assurance that the Company will be successful in these efforts.

The Company received proceeds of \$299,000 in respect of a proposed private placement of units and a commitment for a loan facility of \$3,000,000 (see page 2, *Capital transactions*). The loan facility is intended to backstop the Company's monthly cash burn rate for the following 12 months.

Management is of the opinion that sufficient working capital will be obtained from advances from related parties and equity financings to meet the Company's liabilities and commitments as they become due.

Transactions with Related Parties

	3 months ended May 31, 2020 Salary \$
Mark Upsdell, for his services as Chief Executive Officer	13,552
Jason Lewis for his services as Senior Vice President, Business Development	13,552
Doug Hyland for his services as Interim Chief Financial Officer	21,534
	48,638

Financial Instruments and Other Instruments

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities

The fair values of cash, accounts receivable and accounts payable and accrued liabilities at May 31, 2020 approximated their respective carrying values due to their short term to maturity.

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1: quoted prices in active markets for identical assets and liabilities;

Level 2: inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: inputs for the asset or liability that are not based on observable market data.

Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's customers are subject to an internal credit review, together with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. The carrying amount of accounts receivable reflects the maximum credit exposure and management's assessment of the credit risk. At August 31, 2020 and February 29, 2020, the Company had no expected credit loss provision.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due. The continued operation of the Company is dependent upon the Company's ability to secure equity financing to meet its existing obligations and finance operations. Accounts payable and accrued liabilities are subject to normal trade terms.

Market risk

Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments.

Equity price risk

Equity price risk arises from the Company's marketable securities. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk.

Currency risk

Currency risk arises from financial instruments and sales and purchases that are denominated in a currency other than the Canadian dollar, the Company's functional currency. The Company operates in Canada and the United States and the Company incurs the majority of its operating expenses in Canadian dollars. In the future, the proportion of international sales is expected to increase. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Company's business, financial condition and results of operations. The Company manages risk to foreign currency exposure by monitoring financial assets and liabilities denominated in US dollars and exchange rates on an ongoing basis. The Company has not engaged in foreign currency hedging.

Interest rate risk

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

Material assumptions and risk factors for forward-looking statements

The following table outlines certain forward-looking statements contained in this MD&A and provides material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

Page	Forward-looking statement	Assumption	Risk factor
9	Liquidity and Capital Resources "Management is of the opinion that sufficient working capital will be obtained from advances from related parties and equity financings to meet the Company's liabilities and commitments as they become due."	Advances from related parties and equity financings will be obtained and such advances and financings will be in sufficient amounts to meet the Company's liabilities and commitments as they come due.	The Company is unable to obtain future financing to meet its liabilities and commitments as they become due.

Other Information**Additional disclosure for venture companies without significant revenue**

The following table sets forth a breakdown of material components of the general and administration costs of the Company:

General and administrative expenses

	6 months ended August 31,	
	2020	2019
	\$	\$
Premises	(42,824)	192,136
IT and communications	37,278	12,552
Office	74,697	98,282
Public company costs	11,153	—
Insurance	39,489	39,817
	119,793	342,787

Shares outstanding as at November 16, 2020**Authorized:**

An unlimited number of common shares without par value.

Outstanding:

77,067,435 common shares.

Stock options

Authorized:

7,706,743 stock options, representing 10% of the issued and outstanding common shares.

Outstanding:

	Expiry date	Number of stock options issued and exercisable
<u>\$0.82</u>	March 11, 2024	3,986,000