

# **CRAFTPORT CANNABIS CORP.**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2021

# Craftport Cannabis Corp.

Management's Discussion & Analysis

For the year ended December 31, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Craftport Cannabis Corp. ("Craftport Cannabis" or the "Company") provides a discussion and analysis of the financial condition and results of operations to enable a reader to assess material changes in the financial condition and results of operations of the Company as at and for the years ended December 31, 2021 and 2020. The MD&A should be read in conjunction with the audited consolidated financial statements and notes thereto ("Financial Statements") of the Company as at and for the years ended December 31, 2021 and 2020.

These consolidated financial statements include the financial statements of the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company balances and transactions have been eliminated in preparing the consolidated financial statements.

Entity	Ownership	Basis of accounting
Potanicals Green Growers Inc.	100%	Consolidated
1139000 B.C. Ltd. ("1139")	51% <sup>(1)</sup>	Consolidated
1161750 B.C. Ltd. ("1161")	51% <sup>(2)</sup>	Consolidated
Canada Bond Biotechnology Co., Ltd ("Canada Bond")	65% <sup>(3)</sup>	Consolidated

(1) Acquired 25% of its initial interest on December 6, 2019 and an additional 26% interest on August 31, 2020. The Company began consolidating 1139 and its subsidiary, 1161, on August 31, 2020.

(2) Owned through 1139000 B.C. Ltd.

(3) Canada Bond was incorporated on August 13, 2020 under the British Columbia Business Corporation Act.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts included in this MD&A are in Canadian dollars, except where otherwise specified and on a per unit basis.

The Company operates at the following locations:

Head office: 4715 Paradise Valley Dr, Peachland, BC V0H 1X3

Registered and Records office: 550 Burrard Street, Suite 2900, Vancouver, BC V6C 0A3

Production facilities: 4715 Paradise Valley Dr, Peachland, BC V0H 1X3  
13460 Rippington Road, Pitt Meadows, BC V3Y 1Z1

This MD&A has been prepared as of April 29, 2022.

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### **LEGAL NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

This MD&A may contain “forward-looking information” within the meaning of Canadian securities legislation (“forward-looking statements”). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management’s expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its projections or estimates about its future business operations, its planned expansion activities, the adequacy of its financial resources, and future economic performance. In certain cases, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved” or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including “may”, “future”, “expected”, “intends” and “estimates”. By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section “Risk Factors” as well as those factors detailed from time to time in the Company’s interim and annual financial statements and management’s discussion and analysis of those statements, all of which are filed and available for review under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com) and the CSE website at [www.thecse.ca](http://www.thecse.ca). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made. Readers are advised to consider such forward-looking statements considering the risks set forth in the Risks section of this MD&A. The Company does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.

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### **BUSINESS OVERVIEW**

The Company was incorporated under the Business Corporation Act of Alberta on November 23, 2009. On November 2, 2017, the Company acquired Potanicals Green Growers Inc. ("Potanicals") through a reverse acquisition transaction.

On October 29, 2021, the Company's name changed from Benchmark Botantics Inc. to Craftport Cannabis Corp. Associated with this name change, the Company's ticker symbol on the Canadian Securities Exchange changed, effective November 1, 2021, from BBT to CFT.

The Company's principal business is the production of cannabis licensed under the Cannabis Act (Canada) and its relevant regulations (the "Cannabis Act") which came into force on October 17, 2018. All of the Company's cannabis licenses are held by its wholly owned subsidiary, Potanicals. At the beginning of 2021, Potanicals held cannabis licenses at 3 sites:

- 1) Peachland, BC (site owned by Potanicals)
- 2) Pitt Meadows, BC (site owned by 1139)
- 3) Pitt Meadows, BC (site owned by Yatai & BBT Biotech Ltd).

As at the date of this MD&A, Potanicals holds cannabis licenses only at the Peachland site.

#### Peachland Site

The Peachland site is located at 4715 Paradise Valley Drive, Peachland, BC. It includes a 12,700 square foot production facility situated on 20 acres of land. Historically, the Company used the Peachland site as a cultivation facility to cultivate and harvest cannabis, and then package and sell the cannabis. In 2021, following the resignation of the Company's former President and former CEO, the Company completed an assessment of its operations and evaluated its strategic options in the context of the Canadian cannabis industry. Based on this review, the Company determined that it was in its best interest to focus on the Canadian premium craft cannabis recreational market by utilizing an asset-light model based from the Peachland site. The asset-light model entails purchasing premium craft cannabis from other licensed Canadian cannabis producers and packaging the product in Peachland. The product is to be sold under the brand name Craftport Cannabis. As a result of pivoting to the asset-light model, the Company closed all cultivation activities in Peachland, and purchased and installed two highly automated pieces of equipment – a pre-roll machine, and a nitrogen tin-can packaging machine. By moving to the asset-light model, the Company is expecting to leverage the capacity of the automated machinery in order to achieve significantly more scale than it could by cultivating and packaging its own product in Peachland.

In addition, in an effort to reduce operating expenses, the Company eliminated its head-office lease in Metro Vancouver and moved its corporate office to Peachland.

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### Pitt Meadows Site - 1139

On August 30, 2018, the Company entered into an Earn-in and Shareholders' Agreement to acquire and develop a four-acre greenhouse facility (the "Pitt Meadows Greenhouse Operation") into a licensed cannabis cultivation operation. Located on a 5-acre property, the Pitt Meadows Greenhouse Operation was expected to have a total of 174,240 sq. ft of production capacity when fully operational.

On August 17, 2020, the Company entered into an agreement with a third party to assist with the cultivation activities associated with an estimated 12,000 sq ft of space within the Pitt Meadows Greenhouse Operation ("Area 4").

On November 23, 2020, the Company entered into another similar agreement with a separate party to assist with the cultivation activities associated with an estimated 33,600 sf ft of space within the Pitt Meadows Greenhouse Operation ("Area 3").

During 2021, except for the above two agreements regarding Area 3 and Area 4, the Company suspended operations at the Pitt Meadows Greenhouse Operation.

As discussed in the section above related to the Peachland Site, based on evaluating its strategic options, the Company made the decision to pivot to an asset-light business model. Given this decision, the Pitt Meadows Greenhouse Operation no longer fit within the Company's new business model. As a result, the Company started to take various measures associated with the Pitt Meadows Greenhouse Operation, including:

- Effective December 12, 2021, written notice was provided to both of the parties who entered into the above agreements for Area 3 and Area 4, that the cultivation agreements would be terminated in 180 days in accordance with the provisions of the agreements. Effective January 3, 2022, a multiple listing contract was executed to list the Pitt Meadows Greenhouse Operation for sale. As of the date of this MD&A, the facility is still listed for sale.
- Revocation of Health Canada License – Potanicals submitted a notice of cessation of activities, and requested revocation of its Health Canada cannabis license for the Pitt Meadows Greenhouse Operation. Health Canada approved the revocation request, resulting in the license at the Pitt Meadows Greenhouse Operation being revoked effective as of March 31, 2022.

### Pitt Meadows Site – Yatai & BBT Biotech Ltd.

On May 27, 2019, the Company and Yatai Pharmaceutical Co., Ltd. ("Zhejiang Yatai"), an unrelated third party, signed a definitive investment cooperation agreement (the "Cooperation Agreement"), whereby the parties agreed to set up a new joint venture company in Canada named YATAI & BBT Biotech Ltd. ("Yatai BBT") located at 14021 Rippington Road, Pitt Meadows, BC. The Yatai BBT site received a cultivation license, effective August 7, 2020, from Health Canada.

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As there were no cultivation activities at the Yatai BBT site since the receipt of Health Canada's cultivation license in August 2020, Potanicals submitted a notice of cessation of activities, and requested revocation of its Health Canada cannabis license for the Yatai BBT site. Health Canada approved the revocation request, resulting in the license at the Yatai BBT site being revoked effective as of March 31, 2022.

As of the date of this MD&A, the Company has not recognized an investment in Yatai BBT.

### **CORPORATE UPDATE**

On October 29, 2021, the Company's name changed from Benchmark Botanics Inc. to Craftport Cannabis Corp. Associated with this name change, the Company's ticker symbol on the Canadian Securities Exchange changed, effective November 1, 2021, from BBT to CFT.

On November 1, 2021, the Company consolidated the common shares of the Company on the basis of ten (10) pre-consolidation common shares for one (1) post-consolidation common share (the "Consolidation"). Upon the Consolidation, a total of 20,361,202 common shares were issued and outstanding. No fractional common shares were issued. Any fractional interest in common shares that was less than 0.5 of a common share resulting from the Consolidation was rounded down to the nearest whole common share and any fractional interest in common shares that was 0.5 or greater of a common share was rounded up to the nearest whole common share.

In this MD&A, all share and per share amounts prior to November 1, 2021 have been adjusted retrospectively to give effect to the Consolidation.

On April 6, 2022, the Company settled certain outstanding accounts payable with non-related parties in the aggregate amount of \$124,316 through the issuance of 1,130,141 common shares of the Company at a deemed price of \$0.11 per common share. The settlement shares are subject to a hold period of four months and a day.

On April 13, 2022, the Company entered into a loan agreement with an arm's-length company with an aggregate principal amount of \$1.99 million, previously received by the Company between August 2020 and December 2021 and recorded as debentures. Under the terms of this loan agreement, the maturity date has been set at December 31, 2023, the loan is repayable in full on the maturity date, and the loan bears interest at a rate of 10% per annum in respect of each advance under the loan, calculated from the date of each such advance and payable on the maturity date. As security for the payment of the Company's obligations under the loan agreement, the Company has, concurrently with the loan agreement, granted the lender a general security agreement; a guarantee from Potanicals; security interest in all personal property of the Company; and a mortgage by Potanicals in the principal amount of \$1.99 million, together with an assignment of rents of the lands located at the Company's Peachland property.

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### Restrictions on Business Activities in the United States

The Company currently does not engage in or invest in any commercial activities related to the cultivation, distribution or possession of cannabis in the U.S.

### SELECTED ANNUAL INFORMATION

The following selected financial data with respect to the Company's financial condition and results of operations has been derived from the audited consolidated financial statements of the Company for the years ended December 31, 2021, 2020 and 2019, prepared in accordance with IFRS. The selected financial data should be read in conjunction with those audited consolidated financial statements and the notes thereto.

	Year Ended December 31, 2021	Year Ended December 31, 2020	Year Ended December 31, 2019
<b>Balance Sheet:</b>			
Total assets	6,522,254	18,791,230	14,959,903
Total long-term liabilities	-	1,093,128	88,147
<b>Operations:</b>			
Net loss and comprehensive loss	(13,849,317)	(14,334,197)	(3,698,409)
Basic and diluted loss per share	(0.49)	(0.55)	(0.02)
Dividend per share	-	-	-

### Summary of Quarterly Results

The following table presents selected financial information from continuing operations for the most recent eight quarters:

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenue	63,900	443,276	301,392	536,587	401,288	375,701	87,420	191,095
Net loss	(7,684,295)	(835,966)	(4,395,140)	(933,916)	(12,578,770)	(65,149)	(817,930)	(872,348)
Net loss attributable to shareholders of the Company	(5,914,711)	(734,166)	(2,673,007)	(739,849)	(8,435,941)	21,469	(817,930)	(872,348)
Loss per share - basic and diluted	(0.290)	(0.036)	(0.131)	(0.036)	(0.414)	0.001	(0.046)	(0.051)
Weighted average number of shares - Basic	20,361,202	20,361,202	20,361,202	20,361,202	20,361,202	17,966,700	17,661,226	17,251,702

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### *Financial Results – Highlights for the year ended December 31, 2021*

- During the year ended December 31, 2021, revenue increased by \$289,651 compared with the year ended December 31, 2020. For the year ended December 31, 2021, revenue was \$1,345,155 versus revenue of \$1,055,504 for the year ended December 31, 2020.
- Net loss for the year ended December 31, 2021 was \$13,849,317, compared to a net loss of \$14,334,197 for the year ended December 31, 2020. The net loss for the year ended December 31, 2021 and 2020 is largely due to the impairment on tangible assets of \$5,094,410 (2020 - \$6,780,991) and the impairment on intangible assets and goodwill of \$4,451,566 (2020 - \$4,426,717).
- At December 31, 2021, the Company had negative working capital of \$9,436,295 (December 31, 2020 - negative working capital of \$5,785,766). The ongoing working capital deficiency has caused the Company to reduce the majority of its workforce, including those working within operations and at head office.

## RESULTS OF OPERATIONS

The following table sets forth consolidated statements of operations, which is expressed in Canadian dollars, except share and per share amounts, for the indicated periods.

	Three-Month Period Ended (Unaudited)		Year Ended (Audited)	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Revenue	<b>63,900</b>	401,288	<b>1,345,155</b>	1,055,504
Gross profit before fair value adjustments	<b>(56,148)</b>	23,961	<b>188,646</b>	308,143
Gross profit	<b>(321,428)</b>	(320,430)	<b>(62,325)</b>	(543,643)
Operating expenses	<b>906,996</b>	1,113,773	<b>3,385,157</b>	3,861,780
Loss from operations	<b>(1,228,424)</b>	(1,434,203)	<b>(3,447,482)</b>	(4,405,423)
Other income (expense)	<b>(6,455,871)</b>	(11,858,567)	<b>(10,401,835)</b>	(10,642,774)
Income tax (recovery)	<b>0</b>	(714,000)	<b>0</b>	(714,000)
Net loss	<b>(7,684,295)</b>	(12,578,770)	<b>(13,849,317)</b>	(14,334,197)
Loss per share				
Basic and Diluted	<b>(0.29)</b>	(0.41)	<b>(0.49)</b>	(0.55)
Weighted average number of shares				
Basic and Diluted	<b>20,361,202</b>	20,361,202	<b>20,361,202</b>	18,477,172



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### Revenue

	Three-Month Period Ended		Year Ended	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Revenue	<b>63,900</b>	401,288	<b>1,345,155</b>	1,055,504
Excise taxes	<b>12,761</b>	89,813	<b>336,319</b>	203,739
Net revenue	<b>51,139</b>	311,475	<b>1,008,836</b>	851,765

Total revenue for the three months ended December 31, 2021 was \$63,900 (2020 - \$401,288) from retail sales for the adult-use market in Canada. The total quantity of cannabis sold during the three months ended December 31, 2021 was 36,256 grams (2020 – 105,414 grams) at an average sales price per gram of \$1.76 (2020 - \$3.81). The decrease in sales volume and decrease in sales price reflects the Company's decision to pivot to a new business model. As such, in Q4 2021, the Company was not cultivating or harvesting any of its own product, resulting in Q4 2021 revenue primarily being generated by selling inventory from previous harvests.

Total revenue for the year ended December 31, 2021 was \$1,345,155 (2020 - \$1,055,504) from sales of dried cannabis for the adult-use market in Canada. The total quantity of cannabis sold during the year ended December 31, 2021 was 321,404 grams (2020 – 227,355 grams) at an average sales price per gram of \$4.19 (2020 - \$4.64).

The Company currently can sell its recreational products in the provinces of Alberta, British Columbia, Manitoba, New Brunswick and Saskatchewan.

### Cost of Sales

Inventory costs expensed to cost of sales consists of two main categories:

- *Production costs.* These costs are capitalized to biological assets as costs directly attributable to growing the plants to the point of harvest, transferred to inventory upon harvest and recognized in cost of sales when the inventory is sold. These costs include direct costs such as direct labour, nutrients, soil, and seeds, as well as other indirect costs such as utilities, an allocation of indirect labour, and depreciation of equipment used in the growing process.
- *Processing costs.* These costs are capitalized to inventory and then recognized in cost of sales when the inventory is sold. These costs represent post-harvest costs incurred to bring harvested cannabis to its saleable condition, which include drying and curing, testing and packaging, and overhead allocation.

Inventory costs expensed to cost of sales during the year ended December 31, 2021 were \$820,190, as compared to \$543,622 during the year ended December 31, 2020.

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Fair value adjustments consist of two main categories:

- *Unrealized Change in Fair Value of Biological Assets.* This line item represents the effect of the non-cash fair value adjustments of biological assets produced in the period, excluding capitalized production costs.
- *Realized Fair Value Adjustments on Inventory Sold.* This line item represents the effect of the non-cash fair value adjustments capitalized to inventory being recognized in the statement of operations as the corresponding inventory is sold and realizable value adjustment is made to inventory.

During the year ended December 31, 2021, the Company reported an unrealized gain on the changes in fair value of its biological assets of \$83,788 (2020 - \$281,344).

During the year ended December 31, 2021, the fair value changes of biological assets included in inventory sold and other inventory charges for the year ended December 31, 2021, was \$199,703 (December 31, 2020 - \$504,680).

During the year ended December 31, 2021, the Company wrote off \$135,056 of inventory. The inventory write-off for the year ended December 31, 2020 was \$628,450.

Gross profit before fair value adjustments for the three months ended December 31, 2021 was (\$56,148) (2020 - \$23,961). The negative gross profit during Q4 2021 is attributable to the Company clearing old inventory at low sales prices as it transitions into its new business model.

Gross profit before fair value adjustments for the year ended December 31, 2021 was \$188,646 (2020 - \$308,143). The decrease is attributable to lower average sales prices in 2021 vs 2020, partly attributable to lower average sales prices in the industry as a result of competition and customers demanding more value priced product, and partly attributable to significantly lower sales prices in Q4 2021 as the Company tried to sell remaining inventory associated with its old business model by significantly discounting the product price.

### *Expenses*

	Three-Month Period Ended		Year Ended	
	12/31/2021	12/31/2020	12/31/2021	12/31/2020
Amortization of tangible assets	86,148	162,563	318,751	413,815
Depreciation on intangible and right of use assets	-	(20,420)	241,827	247,298
Sales and marketing expenses	2,878	17,536	70,702	207,046
General and administrative expenses	815,458	977,948	2,810,260	2,905,698
Share-based compensation (recovery)	2,512	(23,854)	(56,383)	87,923
Operating expenses	906,996	1,113,773	3,385,157	3,861,780

For the three months ended December 31, 2021, operating expenses decreased by \$206,777 compared with the same period of last year. The decrease was primarily attributable to general and administrative expenses decreasing by \$162,490.

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The \$476,623 decrease in operating expenses for the year ended December 31, 2021 compared to the year ended December 31, 2020 is mainly due to:

- The decrease of \$95,064 in amortization of tangible assets.
- The decrease in sales and marketing expense of \$136,344.
- The decrease in share-based compensation expenses of \$144,306.  
Share-based compensation expense was incurred due to the compensation package granted to senior executives, employees, directors, and consultants under the Company's stock option incentive plan. All of the options are exercisable in accordance with the terms of the Company's Stock Option Plan.
- The decrease in general and administrative expenses of \$95,438, as discussed below.

### *General and administrative expenses*

For the three months ended December 31, 2021, general and administrative expenses were \$815,458 compared to \$977,948 for the three months ended December 31, 2020. This decrease of \$162,490 is largely attributable to lower salaries and benefits, in addition to lower management fees, in Q4 2021 versus Q4 2020.

General and administrative expenses decreased by \$95,438 year-over-year, from \$2,905,698 for the year ended December 31, 2020, to \$2,810,260 for the year ended December 31, 2021.

Major year-over-year variances within general and administrative expenses include:

Management fees decreasing \$398,717, from \$490,920 in 2020 to \$92,203 in 2021. This decrease is primarily attributable to the resignation in 2021 of the Company's former President, and the Company's former CEO.

Consulting fees decreasing \$73,194, from \$200,300 in 2020 to \$127,106 in 2021. This decrease is primarily attributable to cost cutting measures introduced in 2021 for cash preservation purposes.

Salaries and benefits increasing \$255,397, from \$1,076,609 in 2020 to \$1,332,006 in 2021. This increase is primarily attributable to the Company receiving \$746,330 in Covid-19 government subsidies in 2020, while no Covid-19 subsidies were received in 2021.

### *Other income and expenses*

For the year ended December 31, 2021, other income (expenses) included write-off deposits of (\$324,364), impairment on tangible assets of (\$5,094,410), impairment on intangible assets and goodwill of (\$4,451,566), recovery of accounts payable of \$261,691, write-off of other receivables of (\$127,405) and finance and other costs of (\$665,781).

- For the year ended December 31, 2021, the Company wrote off deposits of \$324,364 made to purchase equipment for the Company's extraction facility. Due to Covid-19, the suppliers

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were not able to ship the equipment to the Company based on the purchase contract. In addition, the equipment may not suit the Company's use as the extraction facility is incomplete and the Company is not performing any extraction activities.

- **Impairment on Tangible Assets** – For the year ended December 31, 2021, the Company concluded that there were indicators of impairment at both the Pitt Meadows' site and the Peachland site. As a result, the Company estimated the recoverable amount of each of these properties by using real estate valuation reports to estimate the fair value of the properties, less cost of disposal. Based on this approach, the Company estimated the recoverable amount of the Pitt Meadows property, net of cost of disposal, to be \$3,960,000, and the recoverable amount of the Peachland property, net of cost of disposal, to be \$2,040,000. As such, the Company recorded an impairment on tangible assets of \$5,094,410 in order to adjust the Company's Pitt Meadows and Peachland facilities value to a total estimated recoverable amount of \$6,000,000.
- **Impairment on Intangible Assets and Goodwill** – For the year ended December 31, 2021, the Company concluded that the carrying values of the Health Canada license and goodwill at the 1139 facility were fully impaired based on its estimate of the recoverable amount of the Pitt Meadows facility. As a result, the carrying value of the Health Canada license was written off to \$nil, resulting in an impairment charge of \$2,797,789. In addition, the goodwill was written off to \$nil, resulting in an impairment charge of \$1,653,777.
- **Finance and Other Costs** – For the year ended December 31, 2021, the Company incurred \$665,781 in finance and other costs allocated amongst the following line items: \$23,528 associated with interest and bank charges; \$55,867 associated with interest on lease liabilities; \$244,700 associated with interest on debentures; and \$341,686 associated with mortgage interest.

For the year ended December 31, 2020, other income (expenses) included interest income of \$196,058, impairment on tangible assets of (\$6,780,991), impairment on intangible assets and goodwill of (\$4,426,717), gain on acquisition of associate of \$1,986,516 offset by a loss on equity investment of (\$1,363,694), and finance and other costs of (\$253,946).

- As of December 31, 2020, the Company had a loan receivable from 1139000 B.C. Ltd., a subsidiary of the Company, in the amount of \$3,660,000. The loan accrues interest at 8% per year. Interest is calculated and accrued quarterly and payable all at demand. For the year ended December 31, 2020, the interest income of \$196,058 was accrued up to August 31, 2020. As the Company gained ownership of 1139 on August 31, 2020, the loans receivable balance and interest income after the acquisition between the Company and 1139 has been eliminated on consolidation commencing on August 31, 2020.
- **Impairment on Tangible Assets** – For the year ended December 31, 2020, the Company's Peachland operation incurred losses from operations and in December 31, 2020, the Company announced it had decided to suspend growing and cultivation operations at Peachland for an additional three months to reduce operating costs. The Company concluded

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that these factors were indicators of impairment. As a result, the Company estimated that the recoverable amount of its Peachland operation was \$4 million using the fair value less cost of disposal method. The Company also concluded that there were indicators of impairment on the Pitt Meadows property. The Company estimated the recoverable amount of the Pitt Meadows property to be \$7,500,000 using the fair value less cost of disposal method. As a result of the above, the Company recorded an impairment charge of \$6,780,991,

- The Company also recognized a gain of \$1,986,516 on its previously held 25% interest in 1139 on the acquisition of its additional 26% ownership interest of 1139 on August 31, 2020 as required by IFRS.
- For the year ended December 31, 2020, the Company accrued a loss of \$1,363,694 from investment in an equity investee.
- Finance and Other Costs – For the year ended December 31, 2020, the Company incurred \$253,946 in finance and other costs allocated amongst the following line items: \$13,584 associated with interest and bank charges; \$109,699 associated with interest on lease liabilities; \$25,152 associated with interest on debentures; and \$105,511 associated with mortgage interest.

### ***Income Taxes***

The Company and its subsidiaries did not accrue any income taxes for the years ended December 31, 2021 or December 31, 2020 as no taxable income was generated.

### ***Net Loss and Comprehensive Loss***

For the year ended December 31, 2021, net loss and comprehensive loss was \$13,849,317 compared to a net loss of \$14,334,197 for the year ended December 31, 2020.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and restricted cash totaled \$156,395 as at December 31, 2021, compared to \$284,871 as at December 31, 2020. As at December 31, 2021, the Company had working capital of (\$9,436,295), compared to working capital of (\$5,785,766) as at December 31, 2020.

The Company does not have sufficient cash to maintain its operations for the next 12 months and the Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. There is no guarantee that the Company will be able to achieve its business objectives. The continued operations of the Company will require additional financing. The failure to raise such financing will result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional financing will be available, or if available, the terms of such financing will be favourable to the Company.

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### *Cash used in operating activities*

For the year ended December 31, 2021, cash used in operating activities was \$2,730,667, compared to cash used in operating activities of \$3,047,438 for the year ended December 31, 2020.

### *Cash used in investing activities*

For the year ended December 31, 2021, cash used in investing activities was \$216,694 compared to cash used in investing activities of \$284,871 for the year ended December 31, 2020.

Cash used in investing activities during the year ended December 31, 2021 mainly included deposits of \$214,545 (2020 - \$nil) required to purchase equipment necessary to support the Company's new business model.

### *Cash provided by financing activities*

For the year ended December 31, 2021, cash generated from financing activities was \$2,818,885, compared to cash generated from financing activities of \$2,707,333 for the year ended December 31, 2020. Whereas the majority of cash generated from financing activities in 2021 was attributable to the issuance of debt securities, the majority of cash generated from financing activities in 2020 was attributable to the issuance of equity securities.

## OFF-BALANCE SHEET ARRANGEMENTS

As at the date of this MD&A, the Company had no material off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial condition of the Company.

## TRANSACTIONS WITH RELATED PARTIES

The Company has identified its directors and senior officers as its key management personnel. No post-employment benefits, other long-term benefits or termination benefits were made during the years ended December 31, 2021 and 2020. Short-term key management compensation consists of the following:

	2021	2020
	\$	\$
Share-based payments (recovery)	(56,383)	28,134
Salaries	198,045	166,250
Management fees	92,203	490,920
Consulting fees	35,806	48,000
Director fees	83,000	97,250
Rent	21,000	42,000
	<u>373,671</u>	<u>872,554</u>

### Related party balances and transactions

- During the year ended December 31, 2021, the Company incurred \$21,000 (2020 - \$42,000) in lease payment to directors of the Company.

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- b) Included in the accounts payable is \$25,762 due to the CEO, Mike Cosic, for his payments made on behalf of the Company.
- c) Included in the debentures is \$100,000 due to a company controlled by a former officer and director of the Company.

## FINANCIAL INSTRUMENTS

### *Fair values*

The Company's financial instruments include cash, restricted cash, accounts receivable, other receivables, due from associate, loan receivable, and accounts payable. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature.

The following table summarizes the carrying values of the Company's financial instruments:

	2021	2020
	\$	\$
Financial assets at fair value through profit or loss (i)	156,395	284,871
Financial assets at amortized cost (ii)	17,128	257,599
Financial liabilities at amortized cost (iii)	9,014,584	7,875,769

- (i) Cash and restricted cash
- (ii) Amounts receivables and other receivable
- (iii) Accounts payable, debentures, and loans

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices), and
- Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and restricted cash				
December 31, 2021	156,395	-	-	156,395
December 31, 2020	284,871	-	-	284,871

### *Interest Rate and Credit Risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. Management evaluates credit risk on an ongoing basis. The primary sources of credit risk for the Company arise from its financial assets consisting of cash, restricted cash and amounts

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receivables. The carrying value of these financial assets represents the Company's maximum exposure to credit risk. To minimize credit risks the Company only holds its cash with chartered Canadian financial institutions. As at December 31, 2021 and December 31, 2020, the Company has no financial assets that are past due or impaired due to credit risk defaults.

### *Currency Risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. All the Company's financial instruments are denominated in Canadian dollars and all current operational activities occur within Canada. In management's opinion there is no significant foreign exchange risk to the Company.

### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. As of December 31, 2021, the Company had cash and restricted cash of \$156,395 (December 31, 2020: \$284,871). As of December 31, 2021, the Company had working capital of (\$9,436,295) (December 31, 2020 - (\$5,785,766) working capital).

The Company's ability to continue as a going concern is dependent on its ability to raise additional financing and generate positive cash flow from operations. Factors exist that indicate the existence of a material uncertainty that casts significant doubt over the Company's ability to continue as a going concern, and thus manage its liquidity risk.

The following are the contractual maturities of financial liabilities:

	Carrying Amount	Contractual Cash Flows	Within 1 year	Within 2 years	Within 3 years and over
	\$	\$	\$	\$	\$
31-Dec-21					
Bank loan	40,000	40,000	40,000	-	-
Accounts payable	1,587,442	1,587,442	1,587,442	-	-
Debentures	4,202,359	4,202,359	4,202,359	-	-
Loans	3,184,747	3,184,747	3,184,747	-	-
	<u>9,014,548</u>	<u>9,014,548</u>	<u>9,014,548</u>	<u>-</u>	<u>-</u>
31-Dec-20					
Bank loan	40,000	40,000	40,000	-	-
Accounts payable	2,458,566	2,458,566	2,458,566	-	-
Debentures	917,659	917,659	917,659	-	-
Loans	3,141,594	3,141,594	3,141,594	-	-
Lease liabilities	1,317,950	224,822	224,822	270,193	822,935
	<u>7,875,769</u>	<u>6,782,641</u>	<u>6,782,641</u>	<u>270,193</u>	<u>822,935</u>



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### **CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Significant estimates include:

- Estimating the stage of growth of the biological assets, the cannabis plants, up to the point of harvest, the expected future yields from the cannabis plants, their values during the growth cycle, costs to convert the harvested cannabis to finished goods, their sales price and net realizable value;
- Estimating the fair values of identifiable assets acquired and liabilities assumed in business combinations and the fair values of previously held equity interests and non-controlling interests in the acquiree;
- Determining the useful lives of property and equipment; and
- Estimating the value of variables used to calculate the fair value of share-based payment transactions.

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- The evaluation of the Company's ability to continue as a going concern;
- The determination of impairment in the carrying costs of inventory;
- The recognition and valuation of impairment of property and equipment, intangible assets and goodwill; and
- Income tax and estimates about timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable, tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. In addition, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

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### CAPITAL MANAGEMENT

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funds to support its operations and development such that it has the ability to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash and cash equivalents. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek debt financing to ensure that there is sufficient working capital to meet its short-term business requirements. There were no changes in the Company's approach to capital management during the year ended December 31, 2021.

The Company is not subject to externally imposed capital requirements.

### OUTSTANDING SHARE CAPITAL

The Company has authorized an unlimited number of common voting shares without par value. The following table summarizes the maximum number of ordinary shares issued and allotted as of December 31, 2021 and December 31, 2020, and as of the date of this MD&A if all outstanding options and warrants were converted to shares:

	April 29, 2022, (Note 1)	December 31, 2021 (Note 1)	December 31, 2020 (Note 1)
Common shares	20,361,202	20,361,202	20,361,202
Stock options	1,961,000	171,000	596,000
Share purchase warrants	340,000	340,000	3,165,000
Fully diluted shares	22,662,202	20,872,202	24,122,202

Note 1: The Company consolidated the common shares of the Company on the basis of ten (10) pre-consolidation common shares for one (1) post-consolidation common share (the "Consolidation") at the opening of the market on November 1, 2021. All common share, stock option, and share purchase warrants amounts prior to November 1, 2021 have been retrospectively adjusted to give effect to the Consolidation.

### RISK FACTORS

This section discusses factors relating to the business of the Company that should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive. The Company may face risks and uncertainties not discussed in this section, or not currently known to it, or that it deems to be immaterial. All risks to the Company's business have the potential to influence its operations in a materially adverse manner.

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### ***Pandemic Risk***

During December 2019, the World Health Organization (“WHO”) announced that a disease COVID-19 (“Coronavirus”) caused infection, and its transmission patterns could become a worldwide pandemic. The Company implemented preventative and emergency response measures throughout the organization in an attempt to manage this risk.

The Company and the world (Coronavirus is now present on every continent) are now dealing with the results of this worldwide Coronavirus pandemic. The global impact continues to evolve and may have various potential direct effects on the Company's operations.

Effects on the business could be increased including long-term absenteeism of critical staff, supply chain issues, production issues due to missing critical supplies, transport issues, sales issues or other unknown effects and the Company may be required to delay or reduce the scope of certain of its operations or projects. All the possible scenarios may have a materially adverse impact on the Company's business. It might further create a business shutdown if an outbreak of the Coronavirus were confirmed in the immediate area or at the Company premises.

The Company is not aware of restrictions on goods or supplies. However, if there were a restriction or travel restrictions significantly affected the movement of goods there could be a disruption to the movement of cannabis related products thereby potentially disrupting or limiting sales and materially altering the Company's revenue expectations and cash flows. A restriction on goods could also result in a disruption to supply chains and affect the Company's ability to continue production or operations.

The long term effects of the Coronavirus are not known, but could change how the global business world operates and this might affect global markets and cannabis prices in unknown ways that could materially affect the numerous judgements that the Company makes in assessing its critical accounting estimates and critical accounting judgements (see Notes in the audited consolidated financial statement of the Company for December 31, 2021 and 2020).

The Coronavirus could also have some additional but unforeseen effect on specifically Operations Risk, Funding Risk, Project Development Risk, Economic Uncertainty Risk, Social Risk and uncertain effects on cannabis price changes and the price and trading of the Company's common shares.

### ***Reliance on Licenses***

The ability of the Company to successfully grow, store and sell cannabis in Canada is dependent on Potanical's current licenses from Health Canada (the “Licenses”). The Licenses are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements and terms of the Licenses or any failure to maintain the Licenses or any failure to renew the Licenses after their expiry dates, would have a material adverse impact on the business, financial condition and operating results of the Company. Although the Company believes that it will meet the requirements for future extensions or renewals of the Licenses, there can be no assurance that Health Canada will extend or renew the Licenses or, if extended or renewed, that they will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Licenses, or should they

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renew the Licenses on different terms, the business, financial condition and operating results of the Company would be materially adversely affected.

### ***Regulatory Risks***

Activities of the Company are subject to regulation by governmental authorities, including, but not limited to, Health Canada's Office of Controlled Substances. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. Furthermore, although the operations of Potanicals are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to produce or sell cannabis. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of cannabis, or more stringent implementation thereof could have a substantial adverse impact on the Company.

### ***History of Losses, Liquidity, and Additional Financing***

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require additional financing. The failure to raise such financing will result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional financing will be available, or if available, the terms of such financing will be favourable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. The Company will require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

### ***Volatile Stock Price***

The stock price of the Company is expected to be highly volatile and will be drastically affected by governmental and regulatory regimes and community support for the recreational cannabis industry. The Company cannot predict the results of its operations expected to take place in the future. The results of these activities will inevitably affect the Company's decisions related to future operations and will likely trigger major changes in the trading price of the common shares of the Company.

### ***Risks Inherent in an Agricultural Business***

Growing cannabis is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although all such growing of the Company is expected to be

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completed indoors under climate-controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

### ***Energy Costs***

The Company's cannabis growing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may, in the future, adversely impact the business of the Company and its ability to operate profitably.

### ***Insurance and Uninsured Risks***

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

Although the Company maintains and intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### ***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.

### ***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 has undertaken 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

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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 and adversely affect the trading price of the common shares of the Company.

### ***Liquidity of Common Shares***

The Company cannot predict at what prices the common shares will trade, and there can be no assurance that an active trading market in the common shares will develop or be sustained. There is a significant liquidity risk associated with an investment in the common shares of the Company.

### ***Dilution***

The Company may issue equity securities to finance its activities. If the Company was to issue common shares, existing holders of such common shares may experience dilution in their holdings. Moreover, when the Company's intention to issue additional equity securities becomes publicly known, the Company's share price may be adversely affected.

### ***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 could have a significant negative impact on the market price for the common shares of the Company. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Craftport Cannabis Corp.

Mike Cosic

Chief Executive Officer

April 29, 2022