



***CANBUD DISTRIBUTION CORPORATION***  
***(formerly Cannabis Clonal Corporation)***

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**THIRD QUARTER ENDED 30 SEPTEMBER 2020**

## MANAGEMENT'S DISCUSSION & ANALYSIS

*This Management's Discussion and Analysis ("MD&A") is intended to provide a review of the financial position and results of operations of Canbud Distribution Corporation ("CBDX," the "Corporation," the "Company," "we," "our," "us") for the three months ended September 30, 2020. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statement for the three months ended September 30, 2020. Those financial statements are presented in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2019. Unless otherwise indicated, all dollar amounts refer to Canadian funds. Information herein includes any significant developments up to November 27, 2020, the date on which this MD&A was approved by our directors.*

*This MD&A contains forward-looking statements and should be read in conjunction with the risk factors described in the "Risks and Uncertainties" and the "Cautionary Note Regarding Forward-Looking Information" sections at the end of this MD&A.*

### Business Overview

Canbud Distribution Corporation is a science and technology company focused on the global hemp space inclusive of hemp cannabinoids (CBD). Currently the Company, through its subsidiaries, holds three industrial hemp licenses for the purposes of supplying the global market with medicinal and wellness cannabidiol and other cannabinoid-based products on leased lands located in Ontario.

The Company, through its three (3) licensed subsidiaries, Canbud D580H124 Inc., Canbud D2385NR Inc., and Canbud D1726KC Inc., is licensed to grow Hemp CBD for the purposes of supplying the global market with medicinal and wellness cannabidiol and other cannabinoids-based products on leased lands located in McKellar, Ontario, Lakefield Ontario and Kettleby, Ontario, respectively, under three (3) industrial hemp licenses issued by Health Canada.

Each licence allows the Company to grow, harvest and sell hemp CBD flowers. The Company works with third party cannabis licensed extraction and manufacturing entities to process the hemp flowers into CBD and other cannabinoid extracts, as well as consumer products. The three leased properties provide The Company with a total of approximately 190 acres (or 8.2 million square feet) of cultivation acreage.

The Company is also collaborating with an Israeli based strategic partner to develop its own premium brand of CBD based topical and health products.

The Company focuses on cost-effective efficient outdoor operations, providing for low capital expenditures as well as low operating expenses, by leasing farmlands and partnering with the landowners. Utilizing natural energy from the sun further reduces the high energy costs faced by typical indoor producers. In addition, The Company's proprietary clonal system result in overall cost advantages.

The Company has researched, and continues to refine its business model, based on global best practices

The Company vision is to build out a world class, sustainable science and technology-based hemp full plant utilization game changing company.

Its mission is to satisfy global needs for green and sustainable hemp based products, and to be a 3P company: People, Planet, Profit.

The Company has three strategic pillars:

Science and technology  
Quality and compliance  
Cost

### ***Background***

Cannabis Clonal Corp. was incorporated under the Canada Business Corporations Act on October 4, 2018. On September 19, 2019, The Company changed its name to Canbud Distribution Corp. to better reflect its business as a vertically integrated hemp cannabinoids company.

### ***Initial Offering and Private Placement***

On November 24, 2020, the Company issued 5,000,000 common shares through a non-brokered private placement at a price of \$0.10 per common share with a full warrant priced at \$0.20 for one year for aggregate proceeds of \$500,000.

### **CORPORATE HIGHLIGHTS**

On September 30, 2020, the Ontario Security Commission (“OSC”) approved the Company to be a reporting issuer and the Company’s shares started trading at the CSE (Canadian Securities Exchange) under the symbol CBDX on October 9, 2020.

#### **Cultivation**

The Company centered its efforts on low cost outdoor cultivation acreage capital expenditure using land lease and collaborative scheme with landowners.

For 2020 cultivation, in light of Covid-19 challenges, The Company decided to concentrate on one property and started to cultivate its Kettleby farm. The Company activities started in March 2020 with preparation to select female only mother plants for creating clones.

Two cost effective custom built 40-foot containers have been used to perform the mother plants selection. Female mother plants were then planted in several cold frame doubly poly plastic hoop houses.

The Company has moved swiftly, and with calculated decision making to implement the business plan amidst the Covid-19 challenges. The Company has successfully proved out its proprietary clonal system, and at the same time gain many useful insights on the challenges of both greenhouse and outdoor cultivation. The Company expects to continuously improve the cultivation system to perfection.

#### **Extraction and Processing**

The Company has signed an LOI with a third-party extraction and processing company and continue to develop collaboration with additional third-party extraction entities.

#### **Product and Brand Development**

For product development company is reassessing its strategy and plans to adapt its product and brand development based on the new realities. In June The Company completed the sale of Alami Beauty Corp to the Joint venture partner Anthony Murira and formulation from the Israeli company are paid for and waiting for right timing for developing this business.

To support the sales channel for the CBD brand particularly for the medical sales channel in Canada by selling directly to patients/users, The Company has submitted an application package to Health Canada for the Cannabis Federal sale for medical purposes license (without possession). The Federal sale for medical license will also allow The Company to apply for an export permit.

### Information and Communication Technology

The ICT partner “CannaProve” pulled out of the project and reimbursed the expense incurred so far, The Company has taken over the CannaProve development to keep it as a proprietary system and renaming it CanbudProve.

CanbudProve solution will allow The Company to track provenance, consistency, and quality of products, and to understand users personalized CBD (and other cannabinoids) need. The solution will also allow The Company to track its compliance to industry and regulatory requirements and to demonstrate transparency to The Company stakeholders as well as providing consistent potency and quality products to industrial buyers and end user consumers.

### Research and Development

The Company is actively pursuing opportunities to develop additional IP through collaboration with Canadian universities and institutions. The Company has entered a research agreement with Brock University.

## **SELECTED QUARTERLY FINANCIAL INFORMATION**

Selected financial information for the previous six quarters since inception is set out below.

	<b>Quarter ended September 30, 2020 \$</b>	<b>Quarter ended June 30, 2020 \$</b>	<b>Quarter ended March 31, 2020 \$</b>	<b>Quarter ended December 31, 2019 \$</b>
Loss before other income (expenses)	125,204	(324,547)	(233,603)	(215,108)
Other income (expense)	(259)	28,370	2,639	3,166
Net income (loss)	129,945	(296,177)	(230,964)	(211,942)
Total comprehensive income (loss)	129,945	(296,177)	(230,964)	(211,942)
Net loss per share*	0.00	(0.01)	(0.01)	(0.01)
	<b>Quarter ended September 30, 2019 \$</b>	<b>Quarter ended June 30, 2019 \$</b>	<b>Quarter ended March 31, 2019 \$</b>	<b>Quarter ended December 31, 2018 \$</b>
Loss before other income (expenses)	(243,709)	(20,223)	(487)	(12)
Other income	3,354	1,733	-	-
Net loss	(240,355)	(18,490)	(487)	(12)
Total comprehensive loss	(240,355)	(18,490)	(487)	(12)
Net loss per share*	(0.01)	(0.01)	(0.00)	(0.00)

Note: \* Fully diluted income (loss) per share is not presented since it would be anti-dilutive.

- The Company has yet generated any revenue from its operations. The Company has already started working on preparing the leased land for cultivation and expects to generate revenue after successfully cultivating hemp in its lands.
- The Company started its operation in the second quarter of prior year, incurring \$264,431 in operating loss in the nine months ended September 30, 2019. The operating loss increased by \$211,942 in the fourth quarter of 2019. The operating loss mainly due to business and development costs of \$408,772, representing 85% of the total operating loss for the 15 months ended December 31, 2019.

## **SUMMARY OF QUARTERLY RESULTS**

### **Results of Operations**

#### **For the three months ended September 30, 2020**

The Company generated no operating revenues during the three months ended September 30, 2020, which is unchanged from the three months ended September 30, 2019. This was in accordance with expectations as the Company is in the late stage of cultivation of hemp-based cannabinoids using the Company's proprietary clonal system to deliver cost competitive and quality cannabinoid ingredients to consumer-packaged group companies.

The Company recorded a net income of \$124,945 or \$0.00 per share for the three months ended September 30, 2020, compared to net loss of \$19,281 or \$0.00 per share for the three months ended September 30, 2019. The Company started its operation in the second quarter of prior period with minimal transactions with focus to set up its proprietary clonal system. The increase of \$105,664 of net income is attributed primarily to the unrealized fair value adjustment on growth of biological assets of \$297,615. The increase in net income is offset by the following:

- Consulting for the three months ended September 30, 2020 was \$80,950, compared to \$10,970 in the comparative period, consists mainly consulting fees to key management. Most of key management's compensation in the prior period was capitalized to intangible assets (Clonal system) as majority of the key management's time was dedicated to the development of clonal system.
- Depreciation and amortization for the three months ended September 30, 2020 was \$36,998, compared to \$Nil in the comparative period. The increase is primarily related to the commencement of the use of equipment and the clonal system in the third quarter of 2020.
- Office and general increased by \$14,218 for the nine months ended September 30, 2020, compared to \$477 in the comparative period. The increase is attributable to the administration costs in running an office including compensation paid to an administrative staff.
- A total of \$7,603 of interest expense in the nine months ended September 30, 2020 related to the interest on the leases on the farms and office that commenced on January 1, 2020.

#### **For the nine months ended September 30, 2020**

The Company generated no operating revenues during the nine months ended September 30, 2020 as noted above.

The Company recorded a net loss of \$402,196 or \$0.01 per share for the nine months ended September 30, 2020, compared to net loss of \$38,258 or \$0.00 per share for the nine months ended September 30, 2019. The increase of \$363,938 of net loss is attributed primarily to the following:

- Business development increased by \$108,403 for the nine months ended September 30, 2020, compared to the comparative period. The increase is primarily due to developing mother plants after the clonal system was substantially completed in early 2020.
- Consulting for the nine months ended September 30, 2020, was \$245,558, compared to \$12,100 in the comparative period, consists mainly consulting fees to key management team. Most of consulting fees in 2019 was capitalized to intangible assets (Clonal system) as majority of the key management's time was dedicated to the development of clonal system until early 2020.
- Office and general increased by \$43,868 for the nine months ended September 30, 2020 compared to comparative period. The Company did not have an office and had just started its operation in the second quarter of prior period.
- Professional fees amounted to \$121,813 for the nine months ended September 30, 2020, an increase of \$108,550 compared to \$13,263 in the comparative period. The increase is due to prospective listing-related fees, consisted of fees to legal and accounting professionals.

The Company's recognized an income of \$6,758 related to the \$40,000 CEBA loan received from the Government of Canada. The Company sold its 51% interest in Alami in June for \$22,000 and recognized a gain of \$20,966 from the sale.

## **DISCUSSION OF OPERATIONS**

The Company swiftly moved to execute its business plan upon completion of its private placement on May 15, 2019.

### **Cultivation**

The Company centered its efforts on low cost outdoor cultivation acreage capital expenditure using land lease and collaborative scheme with land owners.

Due to effects of Covid, the Company temporarily paused its operations, and reassessed the overall strategy for Cultivation. After deciding to concentrate on only one land package (the Kettleby Property), the Company the cultivation process. The Covid-19 goods and labor supply challenges resulted in some delays in timing, and hence The Company adjusted its cultivation execution to prove out its clonal system.

On the Kettleby property the Company has set up six-30 meters by 27 meters cold frame doubly poly hoop houses housing approximately 600 female mother plants, and two hoop houses for clones. The female mother plants were used for cloning as well as to develop into full flowering plants in the hoop house/greenhouse environment for a comparison with outdoor field plants.

The Company has successfully developed approximately 30,000 female clones. The clones were planted in the outdoor field form harvesting. Some clones were also planted for experiment purpose.

The other 2 leased properties were put in the maintenance mode. The Company's plan for this cultivation season is to successfully harvest a plot of land in the Kettleby property. This will help showcase the efficiency of The Company's clonal system as well as understand and work on the processes to fine tuning the model.

### **Distribution Channel Development**

The Company is still continuing to work on its distribution channel, in Q1 the Company has submitted the application package to Health Canada for the Cannabis Federal sale for medical purposes license without possession. The Company expect the License to be granted in Q4 2020.

Under the Federal Cannabis sale for medical purposes license , the Company will be permitted to sell cannabis products directly to patients in Canada through the Company's fulfillment e-commerce portal. The patients are required to obtain a prescription from a doctor either in person or through Health Canada's approved tele-health portal. Furthermore, the Cannabis Federal sale for medical purposes license will allow The Company to apply to Health Canada for an export permit, issued on a case by case basis.

## **LIQUIDITY AND CAPITAL RESOURCES**

Currently, the Company does not generate revenue. The Company's primary liquidity and capital requirements are for capital expenditures, working capital and general 363,390 (December 31, 2019 - \$1,567,938) and \$649,297 (December 31, 2019 - \$1,420,089) respectively. The Company's ability to continue as a going concern is dependent upon its existing working capital and obtaining the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due.

The Company's working capital may not meet corporate, development, administrative and property obligations for the coming year. As a result, the Company may require additional financing and, while the Company has been successful in raising equity financing through the issuances of common shares in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms. As such, there remains significant doubt as to the Company's ability to continue as a going concern

Three months ended September 30, 2020

Cash used in operating activities was \$233,324 during the nine months ended September 30, 2020, an increase of \$29,939 from the comparative period. The increase is primarily due to the increase in consulting fees of \$69,980, office and general of \$14,218 and professional fees of \$8,957.

Cash used in investing activities was \$128,955 (2019 - \$185,132) consists primarily of purchase of various equipment such as hoop house, trans planter, drying machine, vehicle and computers for a combined total of \$291,712 and fees paid related to the Clonal system's development of \$19,850. A decrease of \$56,177 from comparative period is due to \$159,112 spent in the third quarter of 2019 as well as \$25,000 promissory note advanced to HIP beverages Corporation.

Cash generated from the financing activities was \$25,000 (2019 – \$nil). During the three months ended September 30, 2020, the Company spent \$25,000 on lease payments.

Nine months ended September 30, 2020

Cash used in operating activities was \$894,436 during the nine months ended September 30, 2020, an increase of \$849,167 from the comparative period. The increase is primarily due to the increase in operation expenses, excluding unrealized fair value adjustment on growth of biological assets, of \$687,216 compared to the third quarter in 2019. The increase in operating expenses were related to increase of \$233,458 in consulting, \$108,403 in business development and \$108,550 in professional fees.

Cash used in investing activities was \$280,612 (2019 - \$185,132) consists of purchase of equipment of \$290,692 and offset by the decrease in additions in intangible assets of \$139,262, the refund received from Canna Prove of \$16,950, 50% of the proceeds of the sale of the Company's 51% interest in Alami of \$11,000 and repayment on promissory note to HIP Beverages corporation of \$2,000.

Cash used in financing activities was \$29,500 (2019 - \$1,612,917) due to payment of lease obligation (office and 3 farms) and offset by the \$40,000 CEBA loan received in June 2020. In the comparative period, the Company completed founders' initial issue of share in April 2019 and its first private placement in May 2019 for a combined net proceeds of \$1,612,917.

**FINANCING ACTIVITIES AND CAPITAL EXPENDITURES**

The Company has historically relied upon equity financings to satisfy its capital requirements and may require further equity capital to finance its development, expansion and acquisition activities moving forward. Additional funding will be necessary to advance its exploration and development efforts and discussions are ongoing in monetizing some Company assets to assist this. While the Company has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

There was no financing nor were there any new shares issued during the second quarter in 2020.

The following table summarizes the financing activities conducted in 2019 and 2020:

Date	Aggregate Number and Type of Securities Issue	Aggregate Proceeds	Price per Security
April 30, 2019	20,000,000 <sup>(1)</sup> Common Shares	\$400,000	\$0.02
May 15, 2019	16,525,000 <sup>(2)</sup> Common Shares	\$1,652,500	\$0.10
September 26, 2019	380,000 <sup>(3)</sup> Common Shares	\$38,000	\$0.10
December 18, 2019	1,163,000 <sup>(3)</sup> Common Shares	\$138,300	\$0.10

December 18, 2019	220,000 <sup>(4)</sup> Common Shares	\$22,000	\$0.10
November 25, 2020	5,000,000 <sup>(5)</sup> Common Shares	\$500,000	\$0.10

There was no financing completed nor shares issued in the third quarter of 2020.

The Company allocated 6,050,000 options on Nov 12, 2020 to management, directors and consultants.

### **CAPITAL MANAGEMENT**

The Company actively manages its capital structure and adjust accordingly. There is no return on capital measure imposed on the management rather board provides the opportunity to the management to use their expertise and business acumen to generate value for the Company and its stakeholders.

Management with the board reviews its capital management policies regularly. There were no changes to The Company's approach to capital management in the current period.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements that would potentially affect current or future operations or the financial condition of the Company.

### **RELATED PARTY TRANSACTIONS**

Key management personnel refer to the Company's main promoters and members of its executive management team.

For the nine months ended	September 30, 2020		September 30, 2019	
Consulting fees	\$	193,500	\$	105,000
Shares issued		-		7,000
	\$	193,500	\$	112,000

### **SUBSEQUENT EVENTS**

#### **Options**

On November 13, 2020, the Company granted 6,505,000 options to directors, officers and consultants of the Company exercisable at a price of \$0.125 per share for a period of five years, expiring on November 13, 2025.

#### **Financing**

On November 24, 2020, the Company closed a non-brokered private placement financing with gross proceeds of \$500,000 through issuance of 5,000,000 units at a price of \$0.10 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrants entitles the holder to purchase one additional Common Share at an exercise price of \$0.20 on or before November 24, 2021, provided, however that if the closing price of the Common Shares on the Canadian Securities Exchange (or any such other stock exchange in Canada as the Common Shares may trade at the applicable time) is \$0.30 or greater per Common Share for a period of five (5) consecutive trading days at any time after the closing date of the Offering, the Corporation may accelerate the warrant term such that the warrants shall expire on the date which is 30 business days following the date a press release is issued by the Company announcing the reduced warrant terms.

#### **Covid-19 Strategy**

Given the current reality that started in March 2020 which we expect to continue through the year 2020 at the minimum. Our farming season is affected in many ways even though farming is considered essential service. We are affected in many ways including travel restrictions, getting temp workers, getting supplies in a timely manner. Considering all the current conditions management has come to decision to scale down the total outdoor cultivation acreage for the 2020 season by focusing on one of the three farm properties.



## **Cultivation**

The Company started to harvest in stages both the hoop house mother plants and the outdoor field plants. The staggered harvest started in first week of October 2020 and will be completed when the harvested flowers are dried, bucked and put into a 10 Kg feed bags, which the company expects to complete by first week of December, 2020.

The Company is currently in discussion with several potential extraction companies to form a strategic partnership.

## **Product and Brand Development**

The Company will focus on development of its own product brand called "My SeeBD". "My SeeBD" brand logo and packaging design has been carried out by a Cannabis focused design company based in Israel.

## **Distribution Channel Development**

On May 4, 2020, the Company submitted its application package for the Cannabis Federal sale for medical purposes license (without possession).

The Company has received email notification from Health Canada on October 22, 2020, informing the Company that the application had been approved.

Prior to Covid-19 pandemic "global business activities reduction", Canbud DEPL Corp. has negotiated to sign a Memorandum of Understanding (MoU) with a strategic partner in Poland for CBD products distribution in Poland, Germany, and Spain. The Company expects to resume the negotiation upon resumption of global business activities post Covid-19 in 2021.

## **Information Technology Platform Development**

The CannaProve Master Service Agreement was terminated effective January 10, 2020, and upon termination, the Company received refund of the amount paid to CannaProve under the Master Service Agreement. In addition, the developer of CannaProve, 2665397 Ontario Inc, provided the Company with the project design and blueprint to allow the Company to continue developing the "clone to consumer" IT platform under the Company's proprietary platform, to be renamed "CanbudProve".

The Company is currently in the process to start a project to develop the users/patients experience sub-platform. The objective is to understand individual user/patient response to the Company product to eventually be able to satisfy "personalised" CBD (and other cannabinoids) need of an individual user/patient.

## **Research and Development**

On April 1, 2020, the Company entered into a research agreement with Brock University to investigate the effects of endophytic fungi on growth promotion in hemp. The Company is currently negotiating an additional research and development project with Brock University that focuses on superior hemp cultivar development ("breeding with DNA markers").

## **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as those applied by the Company in its consolidated financial statements for the year ended December 31, 2019 except as described below:

### ***Newly adopted accounting policies***

**IFRIC 23 Uncertainty Over Income Tax Treatments** IFRIC 23 Clarifies the application of recognition and measurement requirements in IAS 12 – Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted.

**Amendments to IFRS 3, Business Combinations (“IFRS 3”) – Definition of a Business.** In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. Effective January 1, 2020, the Company adopted the amendments to IFRS 3, with no material impact on its interim condensed consolidated financial statements.

### ***Property, plant and equipment***

Property, plant and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is not recorded on property, plant and equipment that is not yet available for use. An asset’s residual value, useful life and depreciation method are reviewed on an annual basis and adjusted prospectively.

Gains or losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the unaudited condensed interim consolidated statements of loss. Depreciation is calculated using the straight-line method over the useful life of property and equipment. The useful life of the property, plant and equipment is as follows:

- Production and processing equipment: 2-8 years
- Computer and software: 3-5 years
- Vehicle: 3-5 years

### ***Intangible assets***

Intangible assets are stated at cost, net of accumulated amortization and accumulated impairment losses, if any. Amortization of intangible is recorded on a straight-line basis over the estimated useful life of five (5) years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

### ***Biological assets***

The Company’s biological assets consist of hemp plants which are not yet harvested. The Company capitalizes all direct and indirect costs, as incurred, related to the transformation of the biological assets between the point of initial recognition and the point of harvest, including labour related costs, grow consumables, materials, utilities, and facilities costs including an allocation of overhead costs related to depreciation on the production facility and equipment. The Company then measures the biological assets at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of internally produced work in progress and finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less costs to sell are included in the net income (loss) and comprehensive income (loss) of the related period. Costs to sell includes post harvest production costs and fulfilment costs.

## USE OF ESTIMATES AND JUDGMENTS

The preparation of these unaudited condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited condensed interim consolidated financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the unaudited condensed interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and include, but are not limited to, the following:

#### *Expected credit losses*

The Company applies the simplified approach as permitted by IFRS 9 for the expected credit loss (ECL) associated with financial assets. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

#### *Estimated useful lives and amortization of long-lived assets*

Depreciation of Property and equipment and intangible assets are dependent upon estimates of useful lives which are determined through the exercise of judgments. The assessment of any impairment of these assets is dependent upon estimates recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

#### *Impairment of long-lived assets*

Long-lived assets, including property and equipment and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

#### *Incremental borrowing rate and lease term on leases*

The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease

obligations, and the resulting interest and depreciation expense, may differ due to changes in the market conditions and lease term. Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions. The Company's incremental rates at the commencement of the leases on January 1, 2020 was range from 4% to 10%.

#### *Incremental borrowing rate on loan*

The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the loan may differ due to changes in the market conditions.

#### *Deferred tax*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

### **Critical judgments**

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the unaudited condensed interim consolidated financial statements include, but are not limited to, the following:

#### *Capitalization and write-off of intangible assets*

An intangible asset arising from development is recognised on satisfying the following criteria by the entity:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

#### *Valuation of biological assets*

Biological assets, consisting solely of plants, are measured at fair value less costs to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make a number of estimates, including estimating sales price, cost to complete and cost to sell, the stage of completion in the production process, expected plant loss and expected yield per plant.

#### *Going concern*

The Company's ability to execute its strategy by funding future working capital requirements requires significant judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances.

## SHARE CAPITAL

The Company had 38,288,000 shares outstanding after a series of private placements and had no warrants and options issued and outstanding as of September 30, 2020.

The table below shows all the shares, warrants and options issued and outstanding as of November 27, 2020:

SHARES	Date Issued	#
Founders' Round	30-Apr-19	20,000,000
Friends & Family Round	15-May-19	16,525,000
Distribution Round 1	25-Sep-19	380,000
Distribution Round 2	17-Dec-19	1,163,000
Issued to Contractors for Debt	17-Dec-19	220,000
Financing	25-Nov-20	5,000,000
<b>Total</b>		<b>43,288,000</b>

Warrants	Price	#	Expiry Date
Issued on November 25, 2020)	\$0.20	5,000,000	24-Nov-21

Options	Price	#	Expiry Date
Granted on November 13,2020_	\$0.125	6,050,000	13-Nov-25

## RISKS AND RISK MANAGEMENT

### Cultivation Risk

Risks inherent in the outdoor agriculture operations apply to the Company operations.

The Company will carry out risk management to mitigate the potential damage due to climate. Proper farm-land management will be carried out to anticipate too much rain falls. Drought will be anticipated by having stand-by water wells whenever feasible. In the longer run, plant genetic breeding work would produce a more drought and frost resistant strains or cultivars

The Company will also be implementing its technology platform "CanbudProve" which will include IOT sensors to provide cultivation environment data analytics.

To manage risk of pest and plant disease, The Company will develop an integrated pest and disease management system.

### Extraction and Processing Risk

The Company will develop relationship with several third-party extraction and processing companies to mitigate the risk of not having a capacity to extract and process the cultivated hemp CBD flowers.

### Distribution and Trading Risk

The CBD market is highly competitive despite it is a new industry. The competitiveness is mainly due to regulatory requirements in marketing and sales of products containing CBD. Furthermore, many jurisdictions globally are still not permitting use of CBD for medical and wellness purposes.

The Company will manage the risk by exploring and developing numerous partnerships in offtake and distribution.

### CBD Price Risk

Due to fierce competition in limited Canadian market, and US CBD supplies, there is a risk of decreasing CBD extracts pricing. The Company will continuously develop its cost leadership strategy to anticipate competitive pricing.

### Access to Capital Market Risk

The capital market may not be conducive to raising additional capital in the near future. The Company has built a business model that demonstrates sustainability.

### Regulatory Risk

The industry is highly regulated and the regulations in Canada as well as overseas jurisdictions continue to evolve. The Company will mitigate the regulatory risk by working with experts/consultants to monitor, anticipate, and comply with respective regulations.

### Liquidity risk

Liquidity risk is the risk that The Company may be unable to meet its short-term financial obligations as they come due. The Company has developed a planning and budgeting process to help determine the funds required to support The Company's ongoing liquidity needs. Historically, The Company's sole source of funding has been funds raised from the investors through private placements. The Company's access to financing is always uncertain and depends on the capital markets. There can be no assurance of continued access to significant equity funding. Liquidity risk is assessed as high.

### Foreign exchange risk

The Company does most of its business in Canada but buys machinery and other agricultural equipment from US and abroad. Also, company plans to sell its products in Europe once its export license is approved. Since most of the equipment purchase is complete and foreign sales are not expected this year, the Company is not exposed to foreign exchange risk.

### Interest rate risk

Interest rate risk is the potential loss from investments in financial instrument due to changes in market interest rates. As at September 30, 2020, the Company is not exposed to interest rate risk.

## **CONTINGENCIES**

The Company is not aware of any contingencies or pending legal proceedings as of September 30, 2020 and as of the date of this report.

## **CAUTIONARY STATEMENT ON FORWARD LOOKING INFORMATION**

This Management Discussion and Analysis includes forward-looking statements concerning our future performance, operations, and financial performance and financial condition. These forward-looking statements may include, among others, statements with respect to our objectives and strategies to achieve those objectives, as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates, and intentions. When used herein, the words “plan”, “believe”, “anticipate”, “may”, “should”, “intend”, “estimate”, “expect”, “project”, and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. These forward-looking statements are based on current expectations. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates, or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors including economic conditions, technological change, regulatory change, and competitive factors, many of which are beyond our control.

Future events and results may vary significantly from what is expected. We are under no obligation (and we expressly disclaim any such obligation) to update or alter the forward-looking statements whether as a result of new information, future events or otherwise.