STEEP HILL INC. *(*formerly Canbud Distribution Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2021

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 Steep Hill Inc. ("STPH," the "Company", "we," "our," "us") for the year ended December 31, 2021. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021 and 2020. Those financial statements are presented in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all dollar amounts refer to Canadian funds. Information herein includes any significant developments up to May 2, 2022, the date on which this MD&A was approved by the Company's board of directors.

For the purposes of preparing this MD&A, management, in conjunction with the board of directors (the "Board"), considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the Company's common shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

This MD&A contains statements and information that, to the extent that they are not historical fact, may constitute "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information is typically, but not always, identified by the use of words such as "will", "intends", "scheduled", "to be" and "may be" and similar words, including negatives thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking information in this MD&A includes, but is not limited to, statements regarding: the anticipated timeframe to complete the retreat build-out; the anticipated closing date of the acquisition; and statements regarding the Company's goals or future plans relating to the build-out of the retreat. Such forward-looking information is based on various assumptions and factors that may prove to be incorrect, including, but not limited to, factors and assumptions with respect to: the ability of the Company to complete the acquisition within the specified time frame; the receipt of all necessary regulatory and other approvals or consents; the ability of the Company to successfully implement its strategic plans and initiatives relating to the acquisition and the retreat build-out, and whether such strategic plans and initiatives will yield the expected benefits; approvals and authorizations from regulatory authorities, and the timing thereof; the ability of the Company to obtain the necessary approvals, permits and licenses within the specified time frame to complete the build out; there being no material delay in the build out; the availability of materials; the availability of labour, contractors, employees and/or personnel necessary to undertake the retreat build-out; and the ability of the Company to close the acquisition within the anticipated time frame. Although the Company believes that the assumptions and factors on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because the Company can give no assurance that it will prove to be correct or that any of the events anticipated by such forward-looking information will transpire or occur, or if any of them do so, what benefits the Company will derive therefrom. Actual results could differ materially from those currently anticipated due to a number of factors and risks including, but not limited to: conditions in the psychedelics industry in Jamaica; fluctuations in market conditions, including in securities markets; economic factors; the risk that the retreat build out will not be completed as anticipated within the specified timeframe, including the risk that the Company will not receive the approvals/permits/licenses necessary in connection with the retreat build out; the ability of management to execute its business strategy, objectives and plans; and the impact of general economic conditions and the travel restrictions imposed as a result of the COVID-19 global pandemic. Additional information regarding risks and uncertainties relating to the Company's business are contained under the heading "Risk Factors" in the Company's management discussion and analysis filed on SEDAR. The forward-looking information included in this MD&A is made as of the date of this MD&A and the Company does not undertake an obligation to publicly update such forward-looking information to reflect new information, subsequent events or otherwise, except as required by applicable law.

This MD&A should be read in conjunction with the risk factors described in the "Risks and Risk Management" and the "Cautionary Statement on Forward-Looking Information" sections at the end of this MD&A.

THE COMPANY

The Company was incorporated on October 4, 2018 under the Canada Business Corporations Act as "Cannabis Clonal Corporation" and on September 19, 2019, the Company filed articles of amendment to (i) change its name to "Canbud Distribution Corporation"; (ii) re-designate its Class A shares to common shares; (iii) decrease the authorized capital of the Company by canceling the unissued Class B shares and deleting the rights, privileges, restrictions and conditions attaching to the Class B shares of the Company; and (iv) remove the private company restrictions.

On October 9, 2020, the Company's common shares commenced trading on the Canadian Securities Exchange ("CSE"). The Company's registered office is located at 120 Adelaide Street West, Suite 2500, Toronto, Ontario, Canada M5H 1T1**.**

The Company changed its name from Canbud Distribution Corporation to Steep Hill Inc. effective February 28, 2022. The Company's new stock ticker symbol on the CSE is "**STPH**".

Overview

The Company is a science and technology company focused on providing products and services to the hemp and cannabis sector.

The Company's focus is on two strategic areas:

- Science and technology – to provide science-backed differentiated products and services that are critical to the sector
- Quality and compliance – to ensure all products and services meet the highest standards of quality, safety and adherence to compliance standards and requirements

Hemp Related Information: As of the date hereof, Canbud D2385NR Inc. ("Canbud D23"), and Canbud D1726KC Inc. ("Canbud D17"), hold two industrial hemp licenses for the purposes of supplying cannabinoid-based products.

In third quarter of 2021, as part of its ongoing review process, the Company evaluated the need to maintain several cultivation locations, based on market conditions including demand and competitor dynamics and capital resource utilization. The decision was made to curtail investment in this business. Through these two (2) licensed subsidiaries, the Company is licensed to grow hemp CBD for medicinal and wellness products on leased lands located in Lakefield and Kettleby, all in Ontario, under two (2) industrial hemp licenses issued by Health Canada as follows:

- Canbud D23 operates the business on fifty-five (55) acres of land located in Lakefield, Ontario, under the industrial hemp license number LIC-7S62J6ZAZR-2019 issued by Health Canada on November 15, 2019 (the "Canbud D23 License"); and

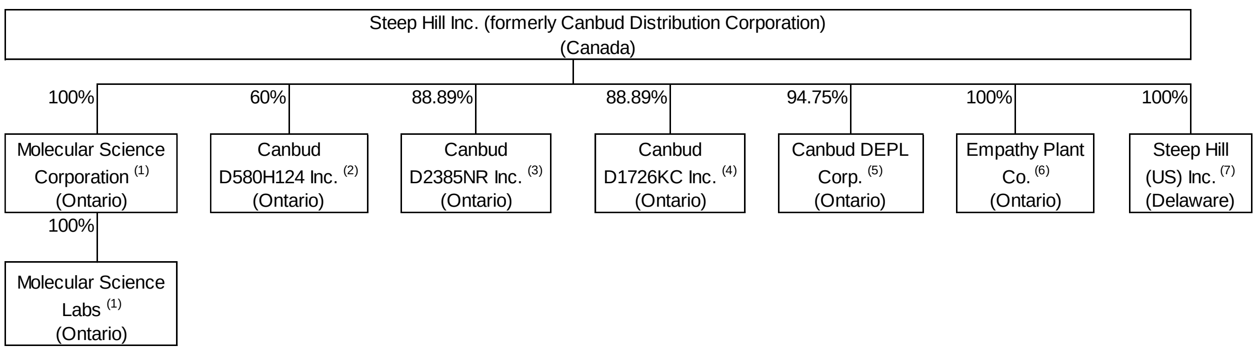
- Canbud D17 operates the business on eighty-five (85) acres of land including three buildings located in Kettleby, Ontario, under the industrial hemp license number LIC-MGG9LOM6BH-2019 issued by Health Canada on November 29, 2019 (the "Canbud D17 License")

Entry into the analytical testing services market: In the third quarter 2021, the Company expanded its focus into complementary areas of analytical testing service market through the acquisition of Molecular Science Corp. ("MSC"). On July 8, 2021, the Company acquired Toronto-based MSC, an analytical testing entity based that provides testing services for cannabis and related pharmaceutical products. The acquisition enabled the Company to expand its focus and become more intricately connected within the supply chain in the sector as licensed producers refine and expand their cannabis 2.0 type product offerings, which require additional testing to conform to Health Canada regulations. On August 3, 2021, MSC received the Dealer's License from Health Canada that allows it to work with psilocybin, Ketamine and other controlled substances in psychedelic space. This license enables MSC to expand its service offerings into emerging market of testing of psychedelics, to drive revenue growth. MSC revenue is primarily derived from testing cannabis and related pharmaceutical products only. Subsequent to 2021, on January 28, 2022, Canbud completed its acquisition of US-based Steep Hill, Inc. ("**Steep Hill**"), a cannabis science company in the business of providing lab testing, research and development, and consulting services primarily in the United States. To better reflect its new business strategy Canbud changed its name on February 28, 2022 to "Steep Hill Inc." from Canbud Distribution Corp and now trades under the new symbol "STPH".

The Company is at an early stage of development and has not generated significant revenues to-date. The Company has relied on equity financings to date to support operations and growth and may continue to do so until significant revenue and profitability is achieved. The Company has sufficient funds, in view of management, to maintain its current operational objectives for the next 18-to-24-month period. As of December 31, 2021, the Company had 14 full-time staff and 7 consultants primarily based in Ontario, Canada, including the executives and staff at MSC.

Intercorporate Relationship

The following diagram illustrates the intercorporate relationships between the Company and its subsidiaries, as well as the jurisdiction of incorporation of each entity.



Notes:

(1) *Acquired on July 8, 2021.*
(2) *Incorporated on July 23, 2019.*
(3) *Incorporated on October 22, 2019, and holds the Canbud D23 Hemp License.*
(4) *Incorporated on October 31, 2019.*
(5) *Incorporated on November 20, 2019.*
(6) *Incorporated on January 22, 2021.*
(7) *Acquired on January 28, 2022.*

2021 CORPORATE HIGHLIGHTS AND UP TO THE DATE HEREOF

On January 18, 2021, Canbud granted 300,000 incentive stock options to a consultant of the corporation. The options have an exercise price of 22 cents and a term of 4 years expiring on January 18, 2025.

On January 18, 2021, Canbud issued $100,000 worth of common stock at a deemed share price of 16.5 cents that were subject to a statutory hold period expiring on the date that is four (4) months and one day from issuance. The shares were issued to Mr. Burke pursuant to the press release of January 7, 2021

On January 19, 2021, Canbud signed a Letter of Intent (LOI) with Hempsana Inc. (CSE:HMPS) to develop and manufacture CBD products for distribution to the medical-patient channel. The LOI was cancelled as both parties couldn't agree on the terms.

On January 15, 2021, Canbud granted 300,000 incentive stock options to a consultant of the corporation. The options have an exercise price of 22 cents and a term of 4 years expiring on January 15, 2025.

On January 29, 2021, Canbud was issued a Federal Sales License for Medical Purposes by Health Canada. The Sale for Medical Purposes Licence permits Canbud to sell cannabis products to registered medical patients. The federal license was voluntary cancelled in November 2021 as the company repositioned itself into analytical testing space.

On February 9, 2021, pursuant to the December 7, 2020 news release, Canbud confirmed the commencement of psychedelics related activity in Jamaica. Construction started on the psilocybin facility which will allow for cultivation and extraction. The plan was to build modular facilities that enable cultivation of psychedelic mushrooms and extraction in the most cost-efficient manner.

On February 19, 2021, Canbud announced the intention to complete a non- brokered private placement for gross proceeds of up to $3,500,000 through the issuance of approximately 29,200,000 million units at a price of $0.12 per Unit. Each Unit is comprised of one common share and one common share purchase warrant which entitles the holder to purchase one additional Common Share at an exercise price of $0.22 within 24 months of the closing of the Offering provided, however that if the closing price of the Common Shares on the CSE is $0.25 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 days following the date a press release is issued by the Corporation announcing the reduced warrant terms.

On February 23, 2021, Canbud announced that it has closed the first tranche of its February 19, 2021 announced non-brokered private placement for gross proceeds of $2,639,080. The Corporation issued 21,992,333 Units at price of $0.12 per Unit, with each Unit comprised of one common share and one common share purchase warrant. Each Warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 within 24 months of the closing of the Offering, provided, however that if the closing price of the Common Shares on the CSE is $0.25 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 days following the date a press release is issued by the Corporation announcing the reduced warrant terms.

The Company paid a total of $99,532 in issuance costs and issued 689,920 of broker warrants, which includes $53,595 and 446,623 Broker Warrants paid to Florence Wealth Management Inc. Raj Ravindran, CFO and Director of the Corporation, is the ultimate designated person and CEO of Florence. The Broker Warrants were issued on the same terms as the Warrants.

On March 8, 2021, Canbud announced closing of the second and final tranche of its non-brokered private placement for aggregate gross proceeds of approximately $2,090,042 and issued a combined total of 17,417,013 units at price of $0.12 per Unit, with each Unit comprised of one common share and one common share purchase warrant. Each Warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 within 24 months of the closing of the Offering provided, however that if the closing price of the Common Shares on the CSE is $0.25 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 days following the date a press release is issued by the Corporation announcing the reduced warrant terms.

The Company paid total of $81,950 of issuance costs and issued 572,425 of broker warrant, which includes $33,831 of issuance costs paid and 281,925 broker warrants issued to Florence Wealth Management Inc. Raj Ravindran, CFO and Director of the Corporation, is the ultimate designated person and CEO of Florence. The Broker Warrants were issued on the same terms as the Warrants.

In total, $151,481.36 in finders' fees and 1,262,345 Broker warrants were paid to registered finders pursuant to the Offering. The proceeds raised from the Offering will be used by the Corporation for working capital, business development and general corporate purposes. Two directors of the Corporation participated in the Offering

On March 15, 2021, Canbud announced an LOI with Molecular Science Corp. (MSC), a Toronto-based Licensed Dealer. Under the terms, once MSC obtained Health Canada approval, the Corporation and MSC would work together to enable Canbud to import psychedelics into Canada for testing and R&D purposes.

On April 7, 2021, Canbud entered into a research partnership with Brock University for the potential application of fungi as a Climate Smart Sustainable Natural Fungi Biofertilizer for crop cultivation, inclusive of hemp plants.

On May 25, 2021, Canbud entered into a non-binding Letter of Intent (LOI) with Molecular Science Corp. ("MSC") whereby the Corporation would acquire all of the issued and outstanding common shares of MSC. MSC is a privately held analytical science and services company, carrying on the business of testing cannabis and related pharmaceutical products.

On June 18, 2021, Canbud entered into a definitive acquisition agreement with Molecular Science Corp. ("MSC") and 2847719 Ontario Inc. ("Subco"), a wholly-owned subsidiary of Canbud, pursuant to which it agreed to acquire all of the outstanding securities of MSC by way of a three-cornered amalgamation. Under the terms of the agreement, the holders of common shares of MSC immediately prior to the amalgamation received 3.313 common shares of Canbud for each MSC Share, or an aggregate of 68,212,896 Canbud Shares. All outstanding common share purchase warrants of MSC were replaced by common share purchase warrants of Canbud, entitling the holders to purchase an aggregate of up to 3,958,800 Canbud Shares for a purchase price of $0.30 per Canbud Share until the date that is three years following the date of the completion of the Transaction. In addition, upon closing of the Transaction, the Corporation issued 1,765,000 Canbud Shares as advisory fee. Upon closing, the holders of MSC Shares prior thereto owned approximately 43.7% of the outstanding Canbud Shares on a non-diluted basis and before giving effect to the issuance of Advisory Fee Shares. The Canbud Shares issued in exchange for MSC Shares are subject to resale restrictions, such that the holders thereof are permitted to trade 25% of such Canbud Shares on the date that is four months from the closing date of the Transaction, and a further 25% of such Canbud Shares on the dates that are seven, 10 and 13 months after the closing date. In accordance with the terms of the Acquisition Agreement, Canbud advanced to MSC a bridge loan of $500,000, to be used by MSC for the repayment of certain debt and for working capital purposes. On July 8, 2021, Canbud completed its previously announced acquisition (the "Acquisition") of Molecular Science Corp.

On August 3, 2021, Canbud’s Subsidiary MSC expanded its license capacity to include the possession, sale/provision, transportation, and testing of controlled substances including Psilocybin, Ketamine, and N-3,4 Methylenedioxyamphetamine.

On August 9, 2021, Canbud entered into a non-binding Letter of Intent with Steep Hill Inc.("**SH**") in respect of a proposed transaction whereby the Corporation would acquire all of the issued and outstanding common shares of SH. The transaction closed in Q1/2022. The holders of common shares of SH immediately prior to the acquisition received an aggregate of 82,000,000 common shares of the Corporation in exchange for their common shares of SH. Upon closing of the Transaction, the Corporation issued 2,870,000 common shares of the Corporation as a finder's fee. Upon closing of the Transaction, the outstanding capitalization of the Corporation was approximately 238,061,493 common shares and, options and warrants to purchase 14,526,000 and 49,630,491 common shares of the Corporation, respectively, excluding any Finder's Fee Shares issued. SH shareholders owned approximately 34% of the Corporation's common shares on a non-diluted basis, and 27.1% on a fully-diluted basis, before giving effect to the issuance of any Finder's Fee Shares. Prior to closing, all outstanding debt of SH were converted into equity.

On August 19, 2021, the Company decided to re-evaluate its activities and consolidate its associated licenses. To rationalize its operations and optimize resources and capital investments, the Company decided to voluntarily submit a request to cancel the Federal Sales License on Health Canada CTLS system. The Federal cannabis sale for medical purpose licence was granted by Health Canada on January 29, 2021. As careful consideration, including the current dynamics underway within the sector, management elected to submit the cancellation request to eliminate idle cost which include regulatory adherence legal costs, reporting expenses, resourcing, and physical location rental, etc. On November 17, 2021, Health Canada confirmed that the request to cancel the license has been granted.

On August 19, 2021, the Company appointed a new independent director, Ian Morton, to provide additional oversight as the Company works towards closing the planned acquisition of Steep Hill Inc. Ian is an accomplished business leader and entrepreneur responsible for establishing and building several environmental services companies such as Eco Generation Home Services, Scout Environmental and Summerhill. He was the Chairman of the Board at Ample Organics, one of Canada's premier Cannabis seed-to-sale software providers, prior to its sale to Nasdaq listed Akerna Corp. in July 2020. He has been recognized by Strategy Magazine for his marketing expertise along with other recognitions and awards, Mr. Robert Tjandra, COO has stepped down as Director of the Company, but subsequently resigned as COO.

On September 14, 2021, The Company entered into a memorandum of understanding (the "MOU") with the College of Agriculture, Science and Education ("CASE"), establishing a business and research and development relationship between the parties. CASE is a tertiary educational institution located in Port Antonio, Jamaica, with a tripartite mandate of teaching, research, and outreach.

On October 6, 2021, the Company completed a review process of its Jamaican operations. The review led to the assessment that current and anticipated commercial state of the psychedelics market over the 18-to-24-month period will remain sluggish and anticipated economic benefits of commercialization plan are not-conducive to continued financial commitment for the project. As a result, the Company and 2688453 Ontario Ltd. agreed to a mutual termination of the definitive agreement entered into on December 4, 2020, whereby the Company agreed to issue 3,040,000 common shares to cancel the agreement (at a deemed price per share equal to $0.05 or a total price of $152,000). The shares to be issued as part of the termination agreement will remain in escrow and released in 3 different tranches during 2022.

On October 8, 2021, the Company appointed a new independent director, Dr. Jane Wright-Mitchell. Dr. Wright-Mitchell brings the breadth of knowledge and experience of the US cannabis market as the company ventures into the US Cannabis testing market. Dr. Wright-Mitchell is an experienced healthcare and life sciences attorney with more than 20 years working with pharmaceutical and medical device companies. She is currently General Counsel, Chief Compliance Officer and Corporate Secretary with Vaxcyte, Inc., a vaccine development company. Prior to joining Vaxcyte, she was Chief Legal Officer with Steep Hill, Inc., a state-licensed cannabis testing laboratory.

On December 8, 2021, Canbud entered into a definitive acquisition agreement with Steep Hill, Inc. pursuant to which it agreed to acquire all of the outstanding securities of Steep Hill. Under the terms of the agreement, the holders of shares of Steep Hill shares immediately prior to the merger received 0.096 of a common share of Canbud for each SH Share, or an aggregate of 82,000,000 Canbud Shares. In addition, upon closing of the Transaction, the Corporation issued 2,870,000 Canbud Shares as an advisory fee. Upon closing of the Transaction, the holders of SH shares prior thereto owned approximately 34.01% of the outstanding Canbud Shares on a non-diluted basis and before giving effect to the issuance of any Advisory Fee Shares. The Canbud Shares issued in exchange for SH Shares are subject to resale restrictions, such that the holders thereof will be permitted to trade 25% of such Canbud Shares on the date that is four months from the closing date of the Transaction, and a further 25% of such Canbud Shares on the dates that are seven, 10 and 13 months after the closing date.

On January 31, 2022, Canbud completed the acquisition of Steep Hill, Inc.

On February 1, 2022, Canbud has appointed Sameet Kanade as a director and Chief Executive Officer of the Company, effective immediately. Mr. Kanade, succeeds Mukesh (Steve) Singh who has stepped down from these positions in order to focus on other ventures. Mr. Singh will serve as a strategic advisor, to the Company to ensure a proper transition and to provide advice the Company on strategic matters.

On February 14, 2022, Canbud announced that it intends to change its name to "Steep Hill Inc." and its stock symbol to "STPH".

On February 23, 2022, Canbud announced that further to its press release dated February 14, 2022, the Corporation had filed articles of amendment with an effective date of Monday February 28, 2022 to change its corporate name from Canbud Distribution Corp. to "Steep Hill Inc." The Company's new stock symbol on the Canadian Securities Exchange is "STPH", and the shares commenced trading under the new name and ticker symbol on Monday February 28, 2022.

BUSINESS OVERVIEW AND DISCUSSION

Hemp Business

Hemp Cultivation

Canbud **had** 3 land parcels with Hemp Cultivation licenses:

- McKellar Lands - Canbud D580H124 Inc. ("Canbud D58") was incorporated for the primary purpose of operating the business on the McKellar Lands. The McKellar industrial hemp licence expired on August 16, 2019.

- Kettleby Property - Canbud D1726KC Inc. is the operating subsidiary for Kettleby. The company completed an experiential grow at the Kettleby property. The 2020 cultivation season was the Company's first year pilot project to translate its clonal system into large acreage outdoor field cultivation. The Covid-19 pandemic created challenges for the Company to execute its cultivation development. The Kettleby industrial hemp licence expired on November 29, 2021.

- Lakefield Property - Canbud D2385NR Inc. is the operating subsidiary for Lakefield lands.

As Covid-19 continued to pose challenges for the development of the business, the over-supply of hemp CBD in the market forced the Company to only renew the Lakefield industrial hemp licence. The Lakefield industrial hemp licence renewal was effective as of November 5, 2021, and it expires on May 4,2023. The Lakefield property presents the least cost to maintain. The Company will continue to monitor the hemp CBD supply and demand situation to ensure that any potential cultivation effort would be able to be absorbed by the market and would be profitable.

Distribution Channel Development

On January 29, 2021, Health Canada issued to the Company a Federal Sales License for Medical Purposes.

The Company signed a revenue growth partnership LOI with Hempsana, an EU GMP extraction company

The Company decided to voluntarily submit a request to cancel the Federal Sales License on Health Canada CTLS system. The Federal cannabis sale for medical purpose licence was granted by Health Canada on January 29, 2021. As careful consideration, including the current dynamics underway within the sector, management has elected to submit the cancellation request to eliminate idle cost which include regulatory adherence legal and other costs. On November 17, 2021, Health Canada granted the notice of revocation of the Federal Sales Licence

Research and Development

The company has no research projects currently, after revaluating the company's current intention to enter and expand in the analytical testing services space, the company cancelled all its research projects including the one with Brock University.

Psychedelics and functional mushroom Business:

Jamaican operations update

On December 4, 2020, The Company entered into a definitive agreement to acquire 100% of the issued and outstanding securities of 2688453 Ontario Ltd. in exchange for 7,600,000 common shares at a deemed price per share equal to 19.5 cents. In furtherance of the agreement, the Company issued 1,520,000 shares (representing 20% of the consideration shares) on January 5, 2021. The agreement contemplated material capital investment (in excess of US$3.5 million) by the Company, over the course of a three-year period, to build and operate a commercial production supported by local staff and establish a retreat facility. During the subsequent period, the company completed the manufacturing and installation of the initial production facility in Jamaica at a cost of US$49,000 and entered into an MOU with the College of Agriculture, Science and Education ("CASE") to focus on the research and development of healing practices facilitated by psilocybin producing mushrooms.

Following a review process, the Company determined that the current and anticipated commercial state of the psychedelics market over the 18-to-24-month period will remain sluggish and anticipated economic benefits of the Company's commercialization plan are not-conducive to continued financial commitment other than the research and development project which requires a financial commitment of up to CA$10,000 over the next 12-month period. As a result, on October 6, 2021, the Company and 2688453 Ontario Ltd. agreed to a mutual termination of the 'agreement' entered into on December 4, 2020, whereby the Company agreed to issue 3,040,000 common shares to cancel the agreement (at a deemed price per share equal to $0.05 or a total price of $152,000). The shares issued as part of the termination agreement will remain in escrow and released in 3 different tranches during 2022.

Plant-Based Foods Business

Empathy Plant Co.: The Company has put on hold launch of products under the Empathy Plant Company banner as management is refocusing its efforts on the business lines that have a distinct and clear path to revenue and profitability. All consulting agreements for related matter were terminated in fourth quarter of 2021.

ENTRY INTO CANNABIS & HEMP ANALYTICAL TESTING SPACE:

Given the continued weakness in Canadian Hemp/CBD market, the company explored other related businesses and decided to enter the Analytical Testing service sector, with the acquisition of MSC being the first foray into this sector. The primary goal of testing Cannabis and Hemp products is to protect consumers and enable safe products to be delivered and accessed by the legal market. With the legalization of Cannabis, an increasing number of regulated products are entering the mainstream market in Canada and the US which increases the need for regulatory testing. As of February 2022, 37 states and four territories in the UA allow the use of medical cannabis. Growing demand for legalization of medical and adult use of cannabis and the need for safe products is expected to support revenue growth in the analytical testing sector. Approximately, 80% of Americans support cannabis legalization and 66% of US citizens live in legalized states.

Cannabis regulatory testing is ~2.5% of cost of sales of MSOs (Multi-State Operators) and LPs (Licensed Producers). Apart from testing, R&D/formulations are also supported by licensed analytical laboratories. The industry size and growth is predicated on the growth of the Cannabis sector, and there is consensus that US market will continue its robust growth. Several analysts have estimated the size and dynamics of the North American analytical testing services market: According to ResearchAndMarkets.com's report (Apr '19), the North America cannabis testing market is expected to reach U$1,120.51 M in 2025 from U$470.85 M in 2017. The market is estimated to grow with a CAGR of 11.6% from 2018-2025.

Molecular Science Corp. Acquisition

On July 8, 2021, the Company completed the acquisition of MSC. In connection with the acquisition, the Corporation issued 68,212,896 common shares of the Corporation to the former shareholders of MSC on the basis of approximately 3.313 Canbud Shares for each MSC common share outstanding, representing approximately 43.7% of the issued and outstanding Canbud Shares. All outstanding common share purchase warrants of MSC were replaced with common share purchase warrants of the Corporation, entitling the holders thereof to purchase up to 3,958,800 Canbud Shares for a purchase price of $0.30 per share until July 8, 2024. In connection with the completion of the Acquisition, the Corporation also issued 1,765,000 Canbud Shares as an advisory fee. The Canbud Shares issued to the former shareholders of MSC are subject to resale restrictions, such that the holders thereof are permitted to trade 25% of such Canbud Shares on the date that is four months from July 8, 2021 and a further 25% of such Canbud Shares on the dates that are seven, 10 and 13 months after July 8, 2021. On July 30, 2021, Canbud's subsidiary, Molecular Science Corp. received the Dealer's License from Health Canada. As a result, MSC has become one of very few organizations able to work with Psilocybin with Health Canada approval.

Molecular Science Corp.

MSC is a Toronto based analytical services company, carrying on the business of testing cannabis and related pharmaceutical products. The business operations of MSC are conducted primarily through Molecular Science Labs Corp, MSC's wholly owned subsidiary at its facility in Scarborough, Ontario and pursuant to an analytical testing license issued by Health Canada under the *Cannabis Act*.

Selected Financial Information of MSC

The following table sets out selected financial information with respect to MSC as at the dates noted.

The selected financial information is derived from MSC's audited consolidated financial statements for the year ended December 31, 2019 and December 31, 2020, which have been prepared in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board.

Balance Sheet Information	As at December 31, 2019 ($)	As at December 31, 2020 ($)
Current Assets	**1,047,184**	**727,896**
Investment	138,000	43,590
Property and equipment	3,542,941	2,476,815
Right-of-use assets	613,270	130,472
Intangible assets	24,184	8,518
Total Assets	**5,365,579**	**3,387,291**
Current Liabilities	1,340,814	1,051,116
Total Liabilities	**1,790,521**	**1,108,861**
Total Shareholder's Equity	3,575,058	2,278,430
Income Statement information	**Year Ending, December 31, 2019 ($)**	**Year Ending December 31, 2020 ($)**
Service Revenue	1,175,890	2,742,208
Operating expenses	5,418,154	4,890,802
Total Operating Loss	(4,242,264)	(2,148,594)
Net Loss	(4,272,761)	(1,572,457)
Total comprehensive loss	(4,991,903)	(1,674,367)

Steep Hill Inc. Acquisition

On August 9, 2021, the Company entered into a LOI with Steep Hill Inc. (**"SH"**) to acquire all of the issued and outstanding shares of SH. Steep Hill, founded in 2008, is one of the premier analytical testing services companies in United States. SH's primary business is the licensing of its brand, trademark, testing procedures and software to its licensees conducting testing of cannabis and hemp products under the name "Steep Hill". On January 31, 2022, Canbud completed its acquisition of SH. The holders of shares of common stock in the capital of SH received 0.096 of common share of the Company for each share held, or an aggregate of 82,000,000 Canbud Shares. Other former holders of SH shares are entitled to receive $0.048 in cash for each of their Steep Hill Shares, for a total of $37,753 in cash consideration payable. Prior to the closing of the transaction, all convertible notes and other outstanding securities of SH were converted into SH shares.

Name Change to Steep Hill:

On February 28, 2022 Canbud changed its name and symbol from Canbud Distribution Corp. (CSE: CBDX) to Steep Hill Inc. (CSE:STPH). The change is part of the strategy to align the company more with the core business of analytical testing. Management believes that the requirement for analytical testing services of Cannabis and Hemp products will only increases as more and more states relax the requirement on Cannabis and CBD sales and consumption.

Growth Plans:

The Company intends to grow and expand its operations in North America within 24 months through a prudent mix of acquisitions supported by organic growth at MSC and SH US.

FINANCINGS

The Company has closed a non-brokered private placement in 2 tranches on February 23, 2021 and March 8, 2021 for aggregate gross proceeds of approximately $4,730,000. The Corporation issued a combined total of 39,409,346 units at price of $0.12 per Unit, with each Unit comprised of one common share in the capital of the Corporation and one common share purchase warrant. Each Warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 within 24 months of the closing of the Offering, provided, however that if the closing price of the Common Shares on the Canadian Securities Exchange (the "**CSE**") (or any such other stock exchange in Canada as the Common Shares may trade at the applicable time) is $0.25 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 days following the date a press release is issued by the Corporation announcing the reduced warrant terms.

Annual Information

Selected financial information for the previous three years is set out below.

	Year ended December 31, 2021 $	**Year ended December 31, 2020 $**	**Year ended December 31, 2019 $**
Current assets	2,910,708	502,328	1,642,661
Total assets	7,433,994	1,702,899	1,886,482
Current liabilities	1,278,840	184,817	222,572
Total liabilities	1,725,126	551,847	222,572
Revenue	938,573	-	-
Loss before other income (expenses)	(3,846,901)	(2,121,345)	(479,040)
Other income (expenses)	(697,355)	1,479	8,253
Net loss	(4,544,256)	(2,119,866)	(470,787)
Total loss and comprehensive loss	(4,544,256)	(2,119,866)	(470,787)
Net loss per share*	0.04	0.05	(0.02)

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	Quarter ended December 31, 2021 $	**Quarter ended September 30, 2021 $**	**Quarter ended June 30, 2021 $**	**Quarter ended March 31, 2021 $**
Loss before other income (expenses)	(1,232,518)	(1,182,918)	(467,105)	(964,360)
Other income (expense)	(536,654)	(145,774)	(7,311)	(7,616)
Net loss	(1,769,470)	(1,328,694)	(474,416)	(971,676)
Total comprehensive income (loss)	(1,769,470)	(1,328,694)	(474,416)	(971,976)
Net loss per share*	(0.01)	(0.01)	(0.01)	(0.01)
	Quarter ended December 31, 2020 $	**Quarter ended September 30, 2020 $**	**Quarter ended June 30, 2020 $**	**Quarter ended March 31, 2020 $**
Loss before other income (expenses)	(1,709,746)	125,204	(324,547)	(233,603)
Other income	(7,925)	(259)	28,370	2,639
Net loss	(1,717,670)	124,945	(296,177)	(230,964)
Total comprehensive loss	(1,717,670)	124,945	(296,177)	(230,964)
Net loss per share*	(0.02)	(0.01)	(0.01)	(0.01)

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

SUMMARY OF QUARTERLY RESULTS

Results of Operations

For the year ended December 31, 2021

The Company generated operating revenues of $938,573 (2020 - $Nil) during the year ended December 31, 2021. The revenues were entirely generated from MSC, a newly acquired wholly owned subsidiary.

The Company recorded net loss before other income (expense) of $3,846,901 for the year ended December 31, 2021, compared to $2,121,345 for the year ended December 31, 2020. The increase of $1,725,556 is attributed primarily to the operating loss in newly acquired subsidiary, MSC, of $499,464 (2020 - $Nil). Additionally, the increase is due to:

- Consulting for the year ended December 31, 2021 increased by $418,272, compared to comparative period primarily due to issuance of 1,082,251 common shares, valued at $200,000, to a consultant of the Company to develop the plant-based protein market, $83,393 (2020 - $Nil) spent on consultants to develop plant-market protein market and $60,000 (2020 - $Nil) on strategic and financing consulting as well as increased number of consultants.
- Marketing and promotion amounted to $217,755 (2020 - $Nil) for the year ended December 31, 2021. Marketing and promotion expenses were incurred to bring awareness, development and expansion of the Company's brand.

- Write-down of property, plant and equipment of $227,458 (2020 - $Nil) primarily related to farming equipment such as green house, transplanter, and drying machine and write-down of intangible of $174,903 (2020 - $Nil) related to the Clonal system development. The write-down of both assets was determined as the Company shifted its focus from hemp cultivation to analytical science and services business.

The Company recorded a net loss of $4,544,256 for the year ended December 31, 2021, an increase of $2,424,390 compared to the year ended December 31, 2020. The increase is primarily due to the increase in the operating expenses of $2,664,129. Further, the Company recorded a total of $624,491 (2020 - $Nil) of acquisition-related costs related to the acquisition of MSC of $185,275 as well as $496,363 related to terminated definitive agreement to acquire 100% shares of 2688453 Ontario Ltd. A total of $545,644 of acquisition-related costs are values attributed to the shares issued (non-cash) pursuant to the agreements. Additionally, the Company recognized $23,017 of realized loss on sale of investments related to the sale of 17,301 Akerna shares in October 2021.

For the three months ended December 31, 2021

The Company generated operating revenue of $411,839 (2020 - $Nil) during the three months ended December 31, 2021. The revenues were entirely generated from MSC, a newly acquired wholly owned subsidiary.

The Company recorded a net loss before other income (expense) of $1,232,518 for the three months ended December 31, 2021, a decrease of $477,228, compared to $1,709,746 for the three months ended December 31, 2020. The decrease is primarily due to the revenue generated of $411,839 (2020 - $Nil) as well as stock-based compensation amounted to $682,446 recognized in the three months ended December 31, 2020, due to the 6,050,000 options to directors, officers, and consultant of the Company. During the year ended December 31, 2021, the Company granted options during the first to third quarters and none in the fourth quarter.

The Company recorded a net loss of $1,769,470 for the three months ended December 31, 2021, an increase of $51,800 compared to the comparative period. The increase is due to the increase in the operating loss during the three months ended December 31, 2021 compared to prior period, offset by the stock-based compensation recognized of $682,466 in 2020.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2021, the Company had a deficit of $6,931,866 (2020 - $2,543,323). For the year ended December 31, 2021, the Company's net loss was $4,544,256 (2020- $2,119,866), negative cash flows from operating activities were $1,569,828 (2020 - $1,251,291) and working capital of $1,631,868 (2020 - $317,511) as of December 31, 2021. 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.

Year ended December 31, 2021

Cash used in operating activities was $1,569,828 during the year ended December 31, 2021, an increase of $318,537 from the comparative period. The increase is due to the increase in the operating expense, offset by the cash generated from the service revenue subsequent to the acquisition of MSC in July 2021. The Company did not generate any cash inflow in the comparative period.

Cash used in investing activities was $336,964, an increase of $56,933 from comparative period. The increase is primarily due to acquisition-related payments and advances of $66,497 to 2688453 Ontario Inc.

as well as $318,500 (US$250,000) secured loan advanced to Steep Hill. In connection with the acquisition of MSC, the Company advanced $500,000 (2020 - $Nil) to MSC prior the closing date.

Cash generated from financing activities was $4,044,647, an increase of $3,642,630 from comparative period. During the year ended December 31, 2021, the Company closed 2 tranches of non-brokered private placements with an aggregate net proceed of $4,526,449 (2020 - $479,962). The increase is offset with repayment of $350,615 of loan payable and increase of $16,241 of payments of lease liability, both of which related to the MSC.

Three months ended December 31, 2021

Cash used in operating activities was $404,188 during the three months ended December 31, 2021, an increase of $47,333 from the comparative period. The increase is due to the increase of operating expense, offset by the decrease is primarily due to the cash inflow from the operation in MSC, whereby the Company recognized a total of $411,839 of service revenue for the three months ended December 31, 2021.

Cash generated from investing activities was $48,468 during the three months ended December 31, 2021, an increase of $47,877 compared to the comparative period. The decrease is due to the $60,293 of proceed from the sale of 17,301 Akerna shares in October 2021, offset by $10,775 incurred related to the acquisition-related payments and advances.

Cash used in financing activities was $261,385, an increase of $692,902 from comparative period primarily due to the $200,615 repayment of loan payable and $39,578 of lease liability payments during the three months ended December 31, 2021. During the comparative period, the Company closed a non-brokered private placement in November 2020, generating net proceeds of $479,962.

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

Compensation awarded to key management personnel

The Company has defined key management personnel as senior executive officers, as well as the Board of Directors. The total remuneration of key management personnel and the Board of Directors are as follows:

For the years ended		**December 31, 2021**		December 31, 2020
Consulting fee	**$**	360,500	$	258,000
Director fees		10,000		-
Share based compensation		209,502		280,272
	$	**521,002**	$	**538,272**

As of December 31, 2021, the Company had $24,000 (2020 - $Nil) of unpaid consulting fees to key management personnel included in accounts payable and accrued liabilities.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these 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 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 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. The COVID-19 pandemic continues to introduce sources of uncertainty that can affect the judgments and significant estimates and assumptions made by management in preparing the consolidated financial statements. The estimates and underlying assumptions 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.

Significant judgements, estimates, and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements are described as follows:

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.

Biological Assets and Inventory
Biological assets, consisting solely of hemp plants, are measured at fair value less costs to sell up to the point of harvest. The valuation of biological assets at the point of harvest is the cost basis for all hemp-based inventory and thus, any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. In calculating the value of the biological assets and inventory, the estimates management make include estimating the stage of growth of the hemp up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and expected yields for the hemp plants. In calculating final inventory values, the Company compares the inventory cost to estimated net realizable value.

Business combination
In a business combination, all identifiable assets, liabilities, and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of the equity issued, assets acquired, and liabilities assumed. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

The estimate of fair value of the acquired property, plant and equipment assumed at the date of acquisition as well as the useful lives of the acquired property, plant and equipment are based on assumptions estimating the fair value of these items. The fair value of property, plant and equipment recognized in a business combination is based on Fair Market Value -In Use (“FMV-In Use”).

The FMV-In Use of the property, plant and equipment is the estimated amount for which property, plant and equipment would change hands on the acquisition date between a willing buyer and a wiling seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, and assuming that the business earnings support the value reported, without verification.

Provisions for lawsuits, claims and litigation cases.
A provision is recognized when there is a present legal or constructive obligation as a result of past events, when it is likely that an outflow of resources will be required to settle the obligation, and when the amount can be reliably estimated. Application of these criteria requires the exercise of significant judgment based

on the facts and circumstances specific to each situation. In order to determine the amount necessary for provisions, the Company makes assumptions and estimates mainly with regard to expected costs, including professional and compensation fees, and the anticipated cost schedule. The estimation of this provision is based on internal analyses and consultations with independent experts and legal advisers. Actual amounts could differ from those estimates.

Capitalization and write-off of intangible assets
An intangible asset arising from development is recognised on satisfying the following criterions 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.

Estimated useful lives and amortization of long-lived assets
Depreciation of Property, plant 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, plant 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%.

Share-based Compensation
In calculating share-based compensation expense, key estimates such as the rate of forfeiture of awards granted, the expected life of options, the volatility and the risk-free interest rate used.

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.

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.

The global pandemic related to an outbreak of the novel coronavirus disease ("COVID-19") has cast uncertainty on each of these assumptions. There can be no assurance that they continue to be valid. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on our business remain unknown at this time. These impacts could include, amongst others, an impact on our ability to obtain debt or equity financing, in the value of our long-lived assets, or potential future decreases in revenue or profitability of our ongoing operations.

Changes in IFRS accounting policies and future accounting pronouncements

The Company plans to adopt the following amendments to the accounting standards, issued by IASB, that are effective for annual period beginning on or after January 1, 2022. The pronouncements will be adopted on their respective effective dates; however, each is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1 – Presentation of Financial Statements
In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to clarify its requirements for the presentation of liabilities as current or non-current in the statement of financial position. This will be effective on January 1, 2023

Amendments to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted.

Amendments to IAS 12 – Income Taxes
In May 2021, the IASB issued an amendment to IAS 12 Income Taxes to clarify the accounting for deferred tax on transactions such as leases and decommissioning obligations. The scope of the recognition exemption in IAS 12 no longer applies to transaction that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted.

Amendments to IAS 16 – Property, Plant and Equipment
In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment. Effective January 1, 2022, the amendments prohibit a company from deducting from the cost of PP&E amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Amendments to IAS 37 – Provisions Contingent Liabilities and Contingent Assets
In May 2020, the IASB issued Onerous Contracts - Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions Contingent Liabilities and Contingent Assets. Effective January 1, 2022, the amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

Amendments to IFRS 9 – Financial Instruments

In May 2020, the IASB issued an amendment to IFRS 9 Financial Instruments clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022, with early adoption permitted.

SHARE CAPITAL

As at December 31, 2021, share capital consisted of:

- 159,101,493 issued and outstanding common shares;
- 14,526,000 options outstanding with exercise price ranges from $0.10 to $0.22 and weighted average remaining contractual life of 4.60 years; and
- 44,630,491 outstanding warrants with exercise price ranging from $0.22 to $0.30 and weighted average remaining contractual life of 1.28 years.

As at May 2, 2022, share capital consisted of:

- 243,971,493 issued and outstanding common shares;
- 14,526,000 options outstanding with exercise price ranges from $0.10 to $0.22 and weighted average remaining contractual life of 4.60 years; and
- 44,630,491 outstanding warrants with exercise price ranging from $0.22 to $0.30 and weighted average remaining contractual life of 1.28 years.

RISKS AND RISK MANAGEMENT

Risks associated with Cannabis industry

The Company is engaged in the business of providing ancillary services to the cannabis industry in Canada and the United States. Cannabis industry is in its infancy and Governments around the world are still developing regulatory framework and standards around this industry. In many jurisdictions, cannabis is still illegal. Unlike mature industries, cannabis industry faces numerous risks which ranges from regulatory to operational. All these risks might lead to increase in legal fees, insurance costs, compliance costs, maintenance costs among others to operate the testing business.

Risks associated with US Operations

With the acquisition of Steep Hill, the Company has officially entered the US markets, where Cannabis is still a Schedule 1 controlled substance under Federal US laws. Cannabis as a schedule 1 substance is subject to tight controls and the US government has reserved the right to enforce laws on the sale, distribution, cultivation, and possession of Cannabis.

Even though Cannabis is considered illegal by federal laws, 36 states allow use of medical cannabis and 17 among them also allow for adult recreational use, which leads to inherent conflicts and hinders normal operations of the business. Due to this conflict between federal and state laws, the companies in the industry face numerous risks including lack of US bankruptcy, heightened regulatory scrutiny, access to normal banking and high insurance costs.

Business Risks

The Company has very little history upon which to evaluate its performance and prospects. Currently the company has little revenue and concentration risk of revenue coming from one or two major clients is a potential risk. The Company's proposed operations are subject to all the business risks associated with new enterprises. Such risks include, but are not limited to, likely fluctuations in operating results as the Company makes significant investments in methods, specialized equipment, research, and reacts to developments in its market, including the entry of competitors into the market and change in regulation and framework. The Company will only be able to pay dividends on any shares once its directors determine that it is financially able to do so. The Company cannot make any assurances that it will be profitable in the next three years or generate sufficient revenues to pay dividends to the holders of the Common Shares.

Covid and other pandemic Risks

Given the current realty that started in March 2020, we expect that the Covid impact on the businesses and economy will continue. The supply chain and other disruptions caused by Covid has created a new paradigm. The company has developed protocols and procedures to reduce the impact and be ready for any future issues that might arise from Covid and/or any other pandemic. The lab operational procedures have been updated and new protocols were developed.

Growth Risks

The Company intends to grow rapidly and significantly expand its operations in the next 24 months organically and through acquisitions. This growth will place a significant strain on the Company's management systems and resources. The Company will not be able to implement its business strategy in a rapidly evolving market, without an effective planning and management process. In particular, the Company may be required to manage multiple relationships with various strategic industry participants and other third parties, which relationships could be strained in the event of rapid growth. Similarly, a large increase in employees, the number of third-party relationships the Company has, may lead to management of the Company being unable to manage growth effectively. The occurrence of such events may result in the Company being unable to successfully identify, manage and exploit existing and potential market opportunities.

Risks associated with acquisitions

As part of their Growth Strategy, the Company is planning to pursue strategic acquisitions in the future. These acquisitions may expose the company to serval potential risks, including due diligence risks; operational integration risks; potential lawsuits from existing employees, suppliers and contractors of the acquired company; hidden liabilities; over extension of the management; relationship issues with existing partners, employees and others.

Regulatory Risk

The Company's development and commercial activities are significantly regulated by several governmental entities, including Health Canada in Canada and State regulatory bodies in the US. There is no guarantee that the Company will get and may fail to obtain the necessary approvals and permits to commence or continue testing. The time required to obtain approval by such regulatory authorities is unpredictable. If there are changes in the application of legislation, regulations or regulatory policies, or if problems are discovered with the Company products, or if one of its distributors, licensees or co-marketers fails to comply with regulatory requirements, the regulators could take various actions. These include imposing fines on the Company, imposing restrictions on the Company's facilities. If any of these events occurs, the Company's ability to sell its services may be impaired, and it may incur substantial additional expense to comply with regulatory requirements, which could materially adversely affect its business, financial condition and results of operations. The Company will mitigate the regulatory risk by working with experts/consultants to monitor, anticipate, and comply with respective regulations.

Operational Risks

The Company's testing labs faces numerous operational risks including labour disputes; accidents; fires; equipment defects, malfunction, and failures; changes in regulatory framework; outbreak of pandemic; environmental issues etc. resulting in lab's operations, costs, monetary losses, potential legal liability, and adverse governmental action, any of which could have a material adverse effect on the Company's business, financial condition, and results of operations. The Company has developed robust control mechanism and opted for operational insurance for the testing facilities. Claims in excess of the insurance coverage could have a material adverse effect on Company's business.

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.

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 its business in Canada and the US, the US operations and payment for machinery and testing supplies in foreign currencies exposes the company to FX risk. Since the revenue in the US and the amount spent on the testing equipment and supplies is relatively small, the current FX exposure is minimal.
Interest Rate Risk

Interest rate risk is the potential loss from investments in financial instrument due to changes in market interest rates. As at December 31, 2021, the Company is not exposed to interest rate risk.

COMPLIANCE PROGRAM

The Company oversees and monitors compliance with applicable laws in each jurisdiction in which it operates. In addition to the Company's senior executives and staff responsible for overseeing compliance, the Company has local counsel engaged in every jurisdiction in which it operates and has received legal opinions or advice in each of these jurisdictions regarding (a) compliance with applicable regulatory frameworks, and (b) potential exposure to, and implications arising from, applicable laws in jurisdictions in which the Company has operations or intends to operate.

The Company works with third parties who require regulatory licensing to handle products and raw material. The reliance on third party certifications is crucial to operations and loss of licenses and/or approvals by such third parties may impact the Company. Management is working to implement risk mitigation measures to ensure such entities comply with applicable regulations. The Company will continue to work closely with external counsel and other compliance experts and is evaluating the engagement of one or more independent third-party providers to further develop, enhance and improve its compliance and risk management and mitigation processes and procedures in furtherance of continued compliance with the laws of the jurisdictions in which the Company operates.

The Company and, to its knowledge, each of its third-party researchers, suppliers and manufacturers have not received any non-compliance, citations or notices of violation which may have an impact on the Company’s licences, business activities or operations.

CONTINGENCIES

As of the date hereof, a claim has been brought against the Company by Adrian Burke (“Mr. Burke”) following the termination of his consulting agreement by the Company, in accordance with its terms, in October 2021. Mr. Burke is seeking damages for wrongful dismissal and seeking to be paid the incentive compensation (up to $700,000 of Company’s shares) that he could potentially have earned, had he met specified performance milestones. The Company has denied his claims and believes that they have no merits.

CAUTIONARY STATEMENT ON FORWARD LOOKING INFORMATION

This Management Discussion and Analysis ("MD&A") includes forward-looking statements concerning the Company's 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 management's 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.