STEEP HILL INC. (FORMERLY CANBUD DISTRIBUTION CORPORATION)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed an audit or review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada.

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

As at	Note		June 30, 2022		December 31, 2021
Assets					
Current					
Cash		$	1,486,880	$	2,576,488
Prepaid and deposits	5		58,020		50,496
Accounts receivable	6		1,258,179		276,224
Investments	8		13,089		7,500
Total current assets			**2,816,168**		**2,910,708**
Non-current					
Acquisition-related payments and advances	9		-		633,900
Property, plant and equipment	10		2,472,481		2,725,742
Intangible assets	11		3,529,580		991,118
Goodwill	4,11		1,530,374		172,526
Total assets		**$**	**10,348,603**	**$**	**7,433,994**
Liabilities					
Current					
Accounts payable and accrued liabilities	12	$	1,891,096	$	1,006,927
Deferred revenue	13		1,861,178		-
Canada Emergency Business Account ("CEBA") loan	15		38,580		37,233
Loan payable	9		107,397		146,142
Current portion of lease liability	14		92,482		88,538
Total current liabilities			**3,990,733**		**1,278,840**
Non-current					
Lease liability	14		401,346		446,286
Total liabilities			**4,392,079**		**1,725,126**
Shareholders' Equity					
Share Capital	16		11,868,572		9,877,844
Reserves	17		2,951,055		2,823,941
Accumulated other comprehensive income			57,281		-
Deficit			(8,866,852)		(6,931,866)
Equity attributable to the Company's shareholders			**6,010,056**		**5,769,919**
Non-controlling interests	18		(53,532)		(61,051)
Total Equity			**5,956,524**		**5,708,868**
Total liabilities and Equity		**$**	**10,348,603**	**$**	**7,433,994**

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENT LIABILITIES (Note 21)
SUBSEQUENT EVENTS (Note 22)

Approved on behalf of the board of directors:

“Ian Morton”	*“David Walters”*
Director	Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Notes	For the three months ended June 30 2022	2021	For the six months ended June 30 2022	2021
Revenue		$ 1,160,878	$ -	$ 2,064,333	$ -
Expenses					
Amortization of property, plant and equipment	10	132,118	33,885	263,881	67,769
Amortization of intangible assets	11	126,545	12,317	230,489	24,634
Allowance for expected credit (recovery) losses	6, 7	1,663	-	210,894	(1,000)
Business development		3,014	17,493	6,593	74,858
Consulting fees	19	116,010	224,792	284,409	616,808
Director fees	19	9,000	-	24,000	10,000
Laboratory expenses		274,131	-	426,464	-
Marketing and promotion		3,250	53,576	15,841	178,294
Office and general expenses		267,434	69,783	390,031	90,310
Professional fees		225,867	38,914	416,535	55,054
Rental		(481)	5,046	6,254	10,092
Regulatory, filing and listing fees		69,469	11,299	75,062	55,069
Salaries and wages		848,640	-	1,373,301	-
Share-based compensation	17	127,114	-	127,114	249,563
Loss before other expenses		**(1,042,896)**	**(467,105)**	**(1,786,535)**	**(1,431,451)**
Other expenses					
Finance expense	9,14,15	(5,626)	(7,311)	(29,968)	(14,927)
Foreign exchange gain		10,099	-	5,200	-
Acquisition-related costs	4,9	(1,364)	-	(116,164)	-
Net loss		**(1,039,787)**	**(474,416)**	**(1,927,467)**	**(1,446,378)**
Other comprehensive income					
Foreign currency translation adjustment		53,870	-	57,281	-
Total loss and comprehensive loss		**$ (985,917)**	**$ (474,416)**	**$ (1,870,186)**	**$ (1,446,378)**
Net loss attributable to:					
Equity holder of the Company		$ (1,047,485)	$ (470,017)	$ (1,934,986)	$ (1,437,228)
Non-controlling interests	18	$ 7,698	$ (4,399)	$ 7,519	$ (9,164)
		$ (1,039,787)	**$ (474,416)**	**$ (1,927,467)**	**$ (1,446,392)**
Net comprehensive loss attributable to:					
Equity holder of the Company		$ (993,615)	$ (470,017)	$ (1,877,705)	$ (1,437,228)
Non-controlling interests	18	$ 7,698	$ (4,399)	$ 7,519	$ (9,164)
		$ (985,917)	**$ (474,416)**	**$ (1,870,186)**	**$ (1,446,392)**
Weighted average number of shares outstanding - basic and diluted		**243,971,493**	**86,065,663**	**193,979,575**	**58,864,583**
Basic and diluted net loss per share		**$ (0.00)**	**$ (0.01)**	**$ (0.01)**	**$ (0.02)**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)
(Expressed in Canadian dollars)

		Reserves						
	Share capital	Share based payments	Warrants	Accumulated Other Comprehensive Income	Deficit	Attributable to owners of the Company	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2021	**$ 9,877,844**	**$ 1,428,286**	**$ 1,395,655**	**$ -**	**$ (6,931,866)**	**$ 5,769,919**	**$ (61,051)**	**$ 5,708,868**
Issued pursuant to Steep Hill, Inc. (Note 4)	1,990,728	-	-	-	-	1,990,728	-	1,990,728
Share-based compensation (Note 17)	-	127,114	-	-	-	127,114	-	127,114
Other comprehensive income	-	-	-	57,281	-	57,281	-	57,281
Net loss	-	-	-	-	(1,934,986)	(1,934,986)	7,519	(1,927,467)
Balance, June 30, 2022	**$ 11,868,572**	**$ 1,555,400**	**$ 1,395,655**	**$ 57,281**	**$ (8,866,852)**	**$ 6,010,056**	**$ (53,532)**	**$ 5,956,524**
Balance, December 31, 2020	**$ 2,917,267**	**$ 682,446.00**	**$ 141,992.00**	**$ -**	**$ (2,543,323)**	**$ 1,198,382**	**$ (47,330)**	**$ 1,151,052**
Issued on private placement, net (Note 16)	2,472,605	-	2,075,035	-	-	4,547,640	-	4,547,640
Issued for services (Note 16)	215,152	-	-	-	-	215,152	-	215,152
Share-based compensation (Note 17)	-	249,563	-	-	-	249,563	-	249,563
Exercise of options	5,707	(5,707)	-	-	-	-	-	-
Net loss	-	-	-	-	(1,437,228)	(1,437,228)	(9,164)	(1,446,392)
Balance, June 30, 2021	**$ 5,610,731**	**$ 926,302**	**$ 2,217,027**	**$ -**	**$ (3,980,551)**	**$ 4,773,509**	**$ (56,494)**	**$ 4,717,015**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Steep Hill Inc. (formerly Canbud Distribution Corporation)
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

For the six months ended June 30,		2022	2021
Operating activities			
Net loss for the period		$ (1,927,467)	$ (1,446,392)
Non-cash items:			
Amortization of property, plant and equipment	10	263,881	67,769
Amortization of intangible assets	11	230,489	24,634
Allowance for expected credit losses (recovery)	6	210,894	(1,000)
Acquisition-related costs	4,9	116,164	-
Consulting fees paid in shares	16	-	215,152
Share-based compensation	17	127,114	249,563
Finance expense	10,14,15	29,968	14,927
Changes in non-cash working capital items:			
Accounts receivable	6	(161,358)	(69,216)
Prepaid and deposits	5	(7,524)	(74,789)
Accounts payable and accrued liabilities	13	(749,212)	(48,793)
Deferred revenue		64,835	-
Total cash flow used in operating activities		**(1,802,216)**	**(1,068,145)**
Investing activities			
Cash acquired in Steep Hill, Inc. acquisition	4	757,846	-
Promissory note receivable repayments	7	-	1,000
Acquisition-related payments and advances	4,10	-	(566,497)
Total cash flow generated from (used in) investing activities		**757,846**	**(565,497)**
Financing activities:			
Proceeds on equity issuances and private placement	16	-	4,547,640
Exercise of options	17	-	3,000
Loan payable repayments	10	(47,671)	-
Payments of lease liability	14	(60,838)	(51,616)
Total cash flow (used in) generated from financing activities		**(108,508)**	**4,499,024**
Increase in cash during the period		**(1,152,878)**	**2,865,382**
Effects of exchange rate changes on cash		63,270	**-**
Cash, beginning of the period		**2,576,488**	**438,633**
Cash, end of the period		**$ 1,486,880**	**$ 3,304,015**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Steep Hill Inc. (the "Company" or "Steep Hill") was incorporated under the *Canadian Business Corporations Act* on October 4, 2018 as Cannabis Clonal Corporation and later changed to Canbud Distribution Corporation. On February 28, 2022, the Company changed its name from Canbud Distribution Corporation to Steep Hill Inc. The Company is a publicly listed company on the Canada Securities Exchange ("CSE") and trades under the ticker symbol "STPH". The Company is domiciled in Canada and its registered office is located at 120 Adelaide Street West, Suite 2500, Toronto, Ontario, M5H 1T1.

The Company is a science and technology company focused on providing products and services, including analytical testing services within the hemp and cannabis market sectors. The Company's focus is on two areas: science and technology, by providing science-backed differentiated products and services that are critical within these sectors; and quality and compliance, by offering services that assist its customers to offer products and services that meet expected standards of quality, safety and compliance. As of June 30, 2022, the Company has one license to grow Hemp CBD and one analytical testing lab in operation.

These condensed interim consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds to meet current and future obligations. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Company has not yet achieved profitable operations and incurred loss and comprehensive loss of $1,870,186 (2021 - $1,446,392) during the six months ended June 30, 2022 and the Company has an accumulated deficit of $6,010,056 (2021 - $5,769,919). As at June 30, 2022, the Company has a working capital deficiency of $1,174,565 (2021 – working capital of $1,631,868) and negative cash flows from operating activities for the six months ended June 30, 2022 was $1,802,216 (2021 - $1,068,145). These conditions along with whether, and when, the Company can attain profitability and positive cash flows from operations has material uncertainty, which may cast doubt upon the Company's ability to continue as going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and by raising capital to fund its operations. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which differ from those shown in these financial statements.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and do not include all the information required for full annual consolidated financial statements required by IFRS as issued by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies used are those the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2022.

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited annual financial statements for the year ended December 31, 2021.

2. BASIS OF PREPARATION (continued)

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on August 19, 2022.

Basis of measurement
These condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain investments measured at fair value.

Basis of consolidation
These condensed interim consolidated financial statements include the account of the Company and subsidiaries controlled by the Company from the date that control commenced until the date that control ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and expose itself to the variable returns from the entity's activities. The Company attributes total loss and comprehensive loss of subsidiaries between the shareholders of the Company and the non-controlling ("NCI") interests based on their respective ownership interests.

Non-controlling interests exist in less than wholly owned subsidiaries of the Company and represent the outside interest's share of the carrying values of the subsidiaries. Non-controlling interests are recorded at their proportionate share of the fair value of identifiable net assets acquired as at the date of acquisition and are presented immediately after the equity section of the statement of financial position. When the subsidiary company issues its own shares to outside interests and does not result in a loss of control, a dilution gain or loss arises as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying equity, an equity transaction, is included in equity.

The Company's subsidiaries are as follows:
Canbud D580H124 Inc. ("D580 Inc.") – The Company holds 60% (2021 - 60%) interest in D580 Inc., incorporated on July 23, 2019. On June 18, 2020, D580 Inc. issued 480 Class B non-voting common shares to landowners and transaction facilitators, which represents 40% interest in D580 Inc.

Canbud D2385NR Inc. ("D238 Inc.") - Company holds 88.89% (2021 – 88.89%) interest in D238 Inc., incorporated October 22, 2019 D238 Inc. entered into an agreement to lease 55 acres of farmland in Lakefield, Ontario, to grow industrial hemp under a licence from Health Canada which was issued November 15, 2019. On June 18, 2020, D238 Inc. issued 120 Class B non-voting common shares to transaction facilitators, which represents 11.11% interest in D238 Inc.

Canbud D1726KC Inc. ("D172 Inc.") - The Company holds 88.89 % (2021 – 88.89%) interest in D172 Inc., incorporated on October 31, 2019. D172 Inc. entered into an agreement to lease 85 acres of farmland in Kettleby, Ontario, to grow industrial hemp under a licence from Health Canada which was issued November 29, 2019. On June 18, 2020 and June 19, 2020, D172 Inc. issued 96 Class B non-voting common shares and 24 Class B non-voting common shares to transaction facilitators, respectively. The combined issuance of 120 class B non-voting common shares represents 11.11% interest in D172 Inc.

Canbud DEPL Corp ("DEPL Corp.") – The Company holds 94.75% (2021 – 94.75%) interest in D238 Inc., incorporated on November 20, 2019. DEPL Corp. was established for distribution of CBD product into Germany and Poland in particular, and Europe in general. On June 18, 2020, DEPL Corp. issued 50 common shares to M. Ciuk, which represents 5.25% interest in DEPL Corp.

2. BASIS OF PREPARATION (continued)

Alami Beauty Corporation ("Alami") – Incorporated on May 24, 2019 under the *Canadian Business Corporation Act* . The Company held 51% in Alami until the Company sold its controlling 51% interest to Mikono on June 4, 2020.

Empathy Plant Co. – On January 22, 2021, the Company incorporated Empathy Plant Company Inc. ("Empathy"), a wholly owned subsidiary of the Company. Empathy was formed primarily to launch and operate the Company's plant-based protein brand with products that are naturally sweetened, zero sugar added, non-GMO project verified, gluten-free, soy-free with 100% compostable packaging.

Molecular Science Corp. – The Company holds 100% interest in Molecular Science Corp., and its wholly-owned subsidiaries Molecular Science Product Corp., Molecular Science Genetics Corp., and Molecular Science Labs Corp. through an acquisition completed on July 8, 2021 (Note 4). On November 25, 2021, the Company dissolved Molecular Science Genetics Corp. and Molecular Science Labs Corp.

Steep Hill, Inc. – The Company holds 100% interest in Steep Hill, Inc. ("Steep Hill US") through an acquisition completed on January 31, 2022 (Note 4).

All of the Company's subsidiaries are located in Ontario, Canada, except Steep Hill, Inc., which is located in California, United States.

Intercompany balances, and any unrealized gains and losses or income and expenses arising from transactions with subsidiaries, are eliminated in preparing these condensed interim consolidated financial statements. Unrealized losses are eliminated to the extent of the gains, but only to the extent that there is no evidence of impairment.

Functional and presentation currency
The condensed interim consolidated financial statements and the accompanying notes are presented in Canadian dollars which is the currency of the primary economic environment in which the Company and its subsidiaries operate in.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the condensed interim consolidated financial statements for the six months ended June 30, 2022 are consistent with those applied in the Company's audited consolidated financial statements for the year ended December 31, 2021.

Cash

Cash includes cash on account at banking institutions of $1,421,967 (2021 - $2,128,744) and amounts held in trust of on behalf of the Company of $64,913 (2021 - $447,744).

Significant Estimates and Judgments

The preparation of these 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 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 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. 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 condensed interim consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Estimates and Judgments (continued)

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 condensed interim 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.

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. See Note 4 – Business Acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Estimates and Judgments (continued)

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Estimates and Judgments (continued)

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.

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 condensed interim 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future accounting pronouncements (continued)

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 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.

(Expressed in Canadian dollars)

4. BUSINESS ACQUISITIONS

Steep Hill, Inc.

On January 31, 2022, the Company acquired all shares of Steep Hill, Inc. ("Steep Hill US"), a privately-owned cannabis science company, located in California, United States, in the business of providing lab testing, research and development, and consulting services (the "Steep Hill Acquisition"). The Company determined that the Steep Hill Acquisition was a business combination in accordance with the definition in IFRS 3, Business Combinations ("IFRS 3"), and as such, has accounted for it in accordance with this standard, with the acquisition date of January 31, 2022 (the "Steep Hill's Acquisition date").

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets.

The following table summarizes the purchase price allocation based on the fair value of the consideration transferred as of the Acquisition date:

Total purchase price consideration	
Pre-existing loan (i)	$ 635,950
Issued shares (ii)	1,875,928
Cash (iii)	37,753
	2,549,631
Identified tangible assets and liabilities assumed	
Cash	757,846
Accounts receivable, net of allowance for expected credit loss of $107,203	266,695
Advances and other receivable	553,902
Prepaid	122,274
Investments	5,516
Accounts payable and accrued liabillities	(1,305,426)
Deferred revenue	(1,926,013)
Identified intangible assets	
Intellectual property	1,165,060
Brand	343,413
Customer Relationships	1,226,112
Goodwill	1,340,252
	$ 2,549,631

(i) The Company advanced at total non-interest-bearing loan in the amount of $635,950 (US$500,000) pursuant to the LOI and new LOI with Steep Hill US (Note 9) entered in 2021.

4. BUSINESS ACQUISITIONS (continued)

(ii) The Company issued 82,000,000 common shares on Steep Hill's Acquisition date. Pursuant to the acquisition agreement, the common shares can not be traded in the open market immediately after Steep Hill's Acquisition date. A total of 20,500,000 (25% of total common share issued on Acquisition date) each are freed for trading after four months, seven months, ten months, and thirteen months following the Steep Hill's Acquisition date.

The fair value of the common shares of $1,875,928 was determined based on a combination of Chaffe, Finnerty Modified and Longstaff Transformed option pricing models, after applying the discounts for lack of marketability due to the trading release periods with volatility in the range of 145.1% to 174.1%.

(iii) A total cash of $37,753 is held in trust on behalf of the Company to compensate the former holders of common stock in the capital of Steep Hill US that were not defined as "accredited investor" within the meaning of the United States Securities Act of 1933.

In connection with the Steep Hill Acquisition, the Company issued 2,870,000 common shares for advisory fees on Steep Hill's Acquisition date. The fair value of these common shares was $114,800, determined based on the share price on Steep Hill's Acquisition date, has been included in the acquisition-related costs in the condensed interim consolidated statements of loss and comprehensive loss.

Molecular Science Corp.

On July 8, 2021, the Company acquired all shares of Molecular Science Corp. ("MSC"), a privately-owned based in Ontario, carrying on the business of testing cannabis and related pharmaceutical products. The Company acquired MSC to expand its focus into complementary areas of analytical science and testing service market. The Company determined that the Acquisition was a business combination in accordance with the definition in IFRS 3, Business Combinations ("IFRS 3"), and as such, has accounted for it in accordance with this standard, with the acquisition date of July 8, 2021 (the "Acquisition date").

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets.

(Expressed in Canadian dollars)

4. BUSINESS ACQUISITIONS (continued)

The following table summarizes the purchase price allocation based on the fair value of the consideration transferred as of the Acquisition date:

Total purchase price consideration		
Pre-existing bridge loan (i)	$	500,000
Issued shares (ii)		3,137,793
Issued warrants (iii)		215,848
		3,853,641
Identified tangible assets and liabilities assumed		
Cash		496,590
Accounts receivable, net of allowance for expected credit loss of $139,199		445,106
Advances and other receivable		396,796
Prepaid		9,170
Investments		90,811
Property, plant and equipment		2,907,434
Accounts payable and accrued liabillities		(818,155)
Loan payable		(444,582)
Lease liability		(493,250)
Identified intangible assets		
Licenses		757,000
Intellectual property		328,000
Website		6,195
Goodwill		172,526
	$	**3,853,641**

(i) The Company advanced $500,000 bridge loan in June 2021, pursuant to the Acquisition Agreement entered on June 17, 2021, with MSC, was settled on Acquisition date.

(ii) The Company issued 68,212,896 common shares on Acquisition date. Pursuant to the Acquisition Agreement, the common shares can not be traded in the open market immediately after Acquisition date. A total of 17,053,224 (25% of total common share issued on Acquisition date) each are freed for trading after four months, seven months, ten months, and thirteen months following the Acquisition date ("Trading release periods"). The fair value of the common shares of $3,137,793 was determined based on a combination of Chaffe, Finnerty Modified and Longstaff Transformed option pricing models, after applying the discounts for lack of marketability due to the trading release periods with volatility in the range of 122.1% to 159.4%.

(iii) The Company issued 3,958,800 warrants for a purchase price of $0.30 per share until July 8, 2024 on Acquisition date. The fair value of the warrants of $215,848 was determined based on the Black -Scholes option pricing model using the following assumptions: expected volatility of 155.3%, expected life of 3 years, risk-free interest rate of 0.65%, and expected dividend yield of 0%.

(Expressed in Canadian dollars)

4. BUSINESS ACQUISITIONS (continued)

In connection with the Acquisition, the Company issued 1,765,000 common shares for advisory fees on Acquisition date. The fair value of these common shares was $118,778, determined based on the share price on Acquisition date less discount related to the trading restriction. The fair value of these shares along a total of $12,350 incurred related to professional fees have been included in the acquisition-related costs in the condensed interim consolidated statements of loss and comprehensive loss.

From the date of the acquisition, MSC contributed $938,573 of revenue and $522,482 to net loss. If the Acquisition had taken place at the beginning of 2021, the Company's revenue would have been $2,187,186 and net loss would have been $1,437,820.

5. PREPAID AND DEPOSITS

		June 30, 2022		December 31, 2021
Deposits on rental	$	**17,775**	$	26,750
Prepayment on insurance and services		**40,245**		23,746
Total	$	**58,020**	$	50,496

6. ACCOUNTS RECEIVABLE

		June 30, 2022		December 31, 2021
Trade receivable	**$**	**1,264,643**	$	308,780
Expected credit loss from business acquisition (Note 4)		**(107,203)**		(139,199)
Contract assets		**398,252**		-
Allowance for expected credit (loss) recovery		**(315,020)**		39,005
Harmonized Sales tax recoverable		**17,507**		67,638
Total	**$**	**1,258,179**	$	276,224

The Company provides for expected credit losses ("ECL") is based on its assessment of probability of specific losses and estimates of future individual exposures and provisions.

(Expressed in Canadian dollars)

7. PROMISSORY NOTE RECEIVABLE

	HIP Beverages (i)	Alami (ii)	Total
Balance, December 31, 2020	**-**	**11,000**	**11,000**
Repayments during the year	(3,000)		(3,000)
Recovery from (allowance from) expected credit losses	3,000	(11,000)	(8,000)
Balance, December 31, 2021 and June 30, 2022	**$ -**	**$ -**	**$ -**

(i) The promissory note is a short-term non-interest-bearing loan to HIP Beverages Corporation ("HIP loan") with a maturity date of November 16, 2019. Given the HIP loan was not collected by the maturity date and the uncertainty of the recoverability of the HIP loan, the Company had recognized a full allowance or expected credit losses of on the HIP loan in 2020. The Company received $3,000 repayment from HIP Beverages Corporation in 2021.

(ii) On June 2, 2020, the Company entered into a share purchase agreement with the holder of non-controlling interest (the "purchaser") of Alami Beauty Corporation to sell 5,100 Class A shares ("Alami shares"), representing 51% interest for $22,000. Pursuant to the share purchase agreement, the purchaser paid $11,000 upon signing and the remainder of $11,000, included in the other assets, is due before or on December 31, 2021. The share purchase agreement was closed on June 4, 2020, the same day that the Company issued Alami shares to purchaser. Due to the uncertainty of the recoverability of the payment, the Company had recognized a full allowance on the payment in 2021.

8. INVESTMENTS

<u>Shares in private companies</u>
As at June 30, 2022, the Company held 150,000 (2021 – 150,000) shares from EIR International Corp. ("EIR shares"), a private company, valued at fair market value of $7,500 (2021 - $Nil) and 2,000 (2021 – Nil) shares from Front Range Biosciences ("FBR shares"), a private company, valued at fair market value of $5,589 (US$4,337) (2021 - $Nil). The fair market value for both investments are based on the initial transaction price.

<u>Interest in Joint Venture</u>
The Company has a 49% interest in C3 Labs LLC ("C3 Labs") through a joint venture agreement entered between Steep Hill US and C3 Labs on September 4, 2020. Pursuant to the joint venture agreement, Steep Hill US contributed its business and adult-use cannabis testing, analytics and research at Berkeley, California (the "Business") in exchange for 161,429 Class A units of C3 Labs. Steep Hill US was also required to pay US$80,000 and issue a promissory note of US$320,000. Additionally, C3 Labs was to assume the liabilities in connection with contributed assets and the Business. As the liabilities were not legally re-assigned, the Company has not de-recognized these financial liabilities, a total of $330,228 (US$252,269) ("C3 liabilities"), which was included in the accounts and accrued liabilities assumed on Steep Hill US's acquisition (Note 4) and as of June 30, 2022. The Company is in the process of legally re-assigning the C3 liabilities to C3 Labs.

On acquisition date of Steep Hill US, the fair value of the interest in C3 Labs is $Nil as the Company is no longer in operation.

9. ACQUISITION-RELATED PAYMENTS AND ADVANCES

<u>2688453 Ontario Ltd.</u>

On December 4, 2020 ("Effective date"), the Company entered into a definitive agreement to acquire 100% of the issued and outstanding shares of 2688453 Ontario Ltd ("268 Ltd.") in exchange for 7,600,000 common shares ("Consideration shares") of the Company ("Acquisition") to be issued as follows:

(i) 1,520,000 shares, representing 20% of Consideration shares, within 30 days from the Effective date;
(ii) 1,900,000 shares, representing 25% of Consideration shares, upon the earlier of completion of phase 1 of the business plan, which focuses primarily on the design and construction of the cultivation buildout facility, or six (6) months from the Effective date ("Second issuance");
(iii) 2,280,000 shares, representing 30% of Consideration shares, on the date that is four (4) months from Second Issuance ("Third issuance");
(iv) 1,900,000 shares, representing 25% of Consideration shares, on the date that is four (4) months from Third issuance.

On December 4, 2020, the Company issued 1,520,000 common shares to the shareholders of 2688453 Ontario Ltd. valued at $296,400. The Company issued 760,000 common shares as finders' fee valued at $148,200, which has been recognized as consulting fee in 2020. In 2021, the Company advanced a total of $66,497 to 268 Ltd. to be used for build-out and operation of psilocybin cultivation facility in Jamaica.

On October 5, 2021, the Company and 2688453 Ontario Ltd. mutually agreed to terminate the definite agreement entered into on December 4, 2020 ("Termination Agreement"). As consideration of the termination, in addition to the 1,520,000 common shares already issued and settlement of $66,497 cash advance, the Company agreed to issue 3,040,000 common shares to 2688453 Ontario Ltd. The common shares issued are in escrow and will be released in three different tranches as follows: 1,246,667 to be released on February 6, 2022, 896,667 on June 6, 2022 and 896,667 on December 6, 2022. The fair value of the common shares was determined at $130,466. On initial recognition of the common shares issued, there is a discount for lack of marketability ("DLOM") as a result of share specific trading restriction on each tranche, which was determined using a Finnerty Model with terms of 4 months, 8 months and 14 months and volatility between 132% to 150%. The hold periods expire February 2, 2022, June 6, 2022, and December 6, 2022.

<u>Steep Hill US</u>

On February 15, 2021, MSC signed a non-binding Letter of Intent ("LOI") for the acquisition of Steep Hill US (Note 4). In accordance with the LOI, MSC was advanced a loan of $400,000 with a six-month maturity date and bearing an interest rate of 18% per annum from MSC's former director and officer of the Company ("The lenders"). During the six months ended June 30, 2022, the Company repaid $47,671 (2021 - $Nil) to the lenders and as of June 30, 2022, the balance of the loan, including accrued interest and due diligence fee, was $102,910 (2021 - $146,142). During the six months ended June 30, 2022, the Company incurred a total of $4,438 (2021 - $Nil) of interest expense related to this loan which has been included in the finance expense in the condensed interim consolidated statements of loss and comprehensive loss. Pursuant to the LOI, MSC, in turn, advanced $318,525 (US$250,000) to Steep Hill (the "Advance").

Following the completion of the Acquisition with MSC (Note 4), the Company entered into a non-binding Letter of Intent ("new LOI") with Steep Hill US on August 6, 2021 to acquire 100% of issued and outstanding shares of Steep Hill US. Pursuant to the new LOI, the Company provided a secured and senior loan of $318,525 (US$250,000) to Steep Hill US ("Secured loan"). Both the Advance and Secured loan are due on demand. the Company completed the acquisition of Steep Hill US on January 31, 2022 (Note 4).

(Expressed in Canadian dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets						
	Office lease	Farms	Leasehold improvements	Production, processing and lab equipment	Office equipment, software and furniture	Vehicle	Total
Balance December 31, 2020	$ 76,859	$ 420,344	$ -	$ 280,709	$ 2,503	$ 15,619	$ 796,034
Additions from business acquisition (Note 4)	502,434	-	1,520,000	860,000	25,000	-	2,907,434
Additions during the year	-	-	-	-	1,050	-	1,050
Leases terminated during the year (Note 14)	-	(390,259)	-	-	-	-	(390,259)
Disposals during the year	-	-	-	(278,021)	-	(15,619)	(293,640)
Balance, December 31, 2021	579,293	30,085	1,520,000	862,688	28,553	-	3,020,619
Additions during the period	-	-	-	10,621	-	-	10,621
Balance June 30, 2022	**$ 579,293**	**$ 30,085**	**$ 1,520,000**	**$ 873,309**	**$ 28,553**	**$ -**	**$ 3,031,240**
Accumulated amortization							
Balance December 31, 2020	$ 15,372	$ 73,177	$ -	$ 21,165	$ 487	$ 3,141	$ 113,342
Additions during the year	56,111	64,375	123,243	123,537	3,639	4,341	375,246
Leases terminated during the year (Note 14)	-	(127,526)	-	-	-	-	(127,526)
Disposals during the year	-	-	-	(58,702)	-	(7,482)	(66,185)
Balance, December 31, 2021	$ 71,483	$ 10,026	$ 123,243	$ 86,000	$ 4,126	$ -	$ 294,878
Additions during the period	48,425	2,505	123,243	86,354	3,354	-	263,881
Balance June 30, 2022	**$ 119,908**	**$ 12,531**	**$ 246,486**	**$ 172,354**	**$ 7,480**	**$ -**	**$ 558,759**
Net book value							
Balance December 31, 2020	**$ 61,487**	**$ 347,167**	**$ -**	**$ 259,544**	**$ 2,016**	**$ 12,478**	**$ 682,692**
Balance December 31, 2021	**$ 507,810**	**$ 20,058**	**$ 1,396,757**	**$ 776,688**	**$ 24,427**	**$ -**	**$ 2,725,741**
Balance June 30, 2022	**$ 459,385**	**$ 17,553**	**$ 1,273,514**	**$ 700,955**	**$ 21,073**	**$ -**	**$ 2,472,481**

11. INTANGIBLE ASSETS

	Licenses	Intellectual property	Brand and Customer relationships	Clonal system development	IT Platform development and website	Total Intangible assets	Goodwill	Total Intangible assets and goodwill
Cost								
Balance December 31, 2020	$ -	$ -	$ -	$ 244,050	$ 2,292	$ 246,342	$ -	$ 246,342
Additions from business acquisition (Note 4)	757,000	328,000	-	-	6,195	1,091,195	172,526	1,263,721
Additions during the year	-	-	-	-	-	-	-	-
Impairment during the year	-	-	-	(217,800)	-	(217,800)	-	(217,800)
Balance December 31, 2021	757,000	328,000	-	26,250	8,487	1,119,737	172,526	1,292,263
Additions from business acquisition (Note 4)	-	1,165,060	1,569,525	-	-	2,734,585	1,340,252	4,074,837
Additions during the period	-	-	-	-	-	-	-	-
Foreign currency translation	-	15,298	20,607	-	-	35,905	17,596	53,501
Balance June 30, 2022	**$ 757,000**	**$ 1,508,358**	**$ 1,590,132**	**$ 26,250**	**$ 8,487**	**$ 3,890,227**	**$ 1,530,374**	**$ 5,420,601**
Accumulated amortization								
Balance December 31, 2020	$ -	$ -	$ -	$ 24,405	$ 458	$ 24,863	$ -	$ 24,863
Additions during the year	75,700	23,428	-	44,742	2,781	146,651	-	146,651
Impairment during the year	-	-	-	(42,897)	-	(42,897)	-	(42,897)
Balance December 31, 2021	75,700	23,428	-	26,250	3,239	128,617	-	128,617
Additions during the period	75,700	120,628	31,609	-	2,552	230,489	-	230,489
Foreign currency translation	-	1,163	378	-	-	1,541	-	1,541
Balance June 30, 2022	**$ 151,400**	**$ 145,219**	**$ 31,987**	**$ 26,250**	**$ 5,791**	**$ 360,647**	**$ -**	**$ 360,647**
Net book value								
Balance December 31, 2020	**$ -**	**$ -**	**$ -**	**$ 219,645**	**$ 1,834**	**$ 221,479**	**$ -**	**$ 221,479**
Balance December 31, 2021	**$ 681,300**	**$ 304,572**	**$ -**	**$ -**	**$ 5,248**	**$ 991,120**	**$ 172,526**	**$ 1,163,646**
Balance June 30, 2022	**$ 605,600**	**$ 1,363,139**	**$ 1,558,145**	**$ -**	**$ 2,696**	**$ 3,529,580**	**$ 1,530,374**	**$ 5,059,954**

(Expressed in Canadian dollars)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2022		December 31, 2021
Accounts payable	$	**924,519**	$	483,021
Accrued liabilities*		**966,572**		523,906
Total	$	**1,891,096**	$	1,006,927

*Included in the accrued liabilities is $280,246 (US$224,269) of liabilities related to C3 Labs (Note 8).

13. DEFERRED REVENUE

		June 30, 2022		December 31, 2021
Balance, beginning of the period	$	**–**	$	–
Deferred revenue from business acquisition (Note 4)		**1,926,013**		–
Revenue recognized that was included in the contract liability		**(225,460)**		–
Unearned revenues received		**30,772**		–
Foreign currency translation		**(129,853)**		–
Balance, ending of the period	$	**1,861,178**	$	–

14. LEASE LIABILITY

The Company has three lease agreements with various landowners for lease of farmlands and two lease agreements for renting office space.

Canbud D580H124 Inc.
The Company leased 50 acres of farmland in McKellar, Ontario, to grow industrial hemp under a license from Health Canada which was issued August 16, 2019 and expired in August 2021. The lease commenced January 1, 2020 for a term of five years at an initial lease cost of $21,000 per annum, payable monthly, with annual increase at the lesser of 3% or the prevailing local market price. The Company terminated the lease effective September 30, 2021.

Canbud D2385NR Inc.
The Company leases 55 acres of farmland in Lakefield, Ontario, to grow industrial hemp under a license from Health Canada which was issued November 15, 2019. The lease commenced January 1, 2020 for a term of three years at an initial lease cost of $6,000 per annum, payable monthly, with annual increase at the lesser of 3% or the prevailing local market price. The lease can renew for an additional term of three years if the subsidiary gives at least ninety days' notice of renewal before expiry of the first term.

Canbud D1726KC Inc.
The Company leased 85 acres of farmland in Kettleby, Ontario, to grow industrial hemp under a license from Health Canada which was issued November 29, 2019. The lease commenced January 1, 2020 for a term of three years at an initial lease cost of $60,000 per annum, payable monthly, with annual increase at the lesser of 3% or the prevailing local market price. The lease could be renewed for an additional term of three years if the subsidiary gives at least ninety days' notice of renewal before expiry of the first term. The Company cancelled the grow industrial hemp license on November 24, 2021 and terminated the lease effective November 30, 2021.

(Expressed in Canadian dollars)

14. LEASE LIABILITY (continued)

Office leases

The office lease recognized in 2020, commenced on January 1, 2020 for a term of five years. Upon completion of acquisition of MSC (Note 4), the Company assumed another office lease which expires in July 2022.

As at		June 30, 2022		December 31, 2021
Balance, beginning of the period/year	$	**534,824**	$	407,823
Lease assumed on business acquisition (Note 4)		**–**		493,250
Leases terminated during the period/year		**–**		(269,022)
Interest lease expense		**19,842**		36,960
Lease payments		**(60,838)**		(134,187)
Balance, end of the period/year	**$**	**493,828**	$	534,824

The future minimum lease payments due are as follows:

		June 30, 2022		December 31, 2021
No more than a year	$	**127,295**	$	126,522
1-5 years		**460,937**		467,885
More than 5 years		**8,591**		60,137
Total future minimum lease payments		**596,823**		654,574
Less: amount representing interest		**(102,995)**		(119,750)
Present value of minimum lease payments		**493,828**		534,824
Less: current portion		**(92,482)**		(88,538)
Non-current portion	**$**	**401,346**	$	446,286

For the six months ended		June 30, 2022		June 30, 2021
Principal payments	$	**40,996**	$	37,943
Lease expense		**19,842**		13,673
Lease payments	**$**	**60,838**	$	51,616

<u>Leases' payments not recognised as a liability</u>

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The Company recognized rent expense from lease of low-value asset of $1,176 (2021 – $1,176) and variable lease payments $5,078 (2021 – $8,916) for the six months ended June 30, 2022 , in rent expense.

(Expressed in Canadian dollars)

15. CANADIAN EMERGENCY BUSINESS ACCOUNT ("CEBA") LOAN

On June 10, 2020, the Company received a loan of $40,000 through the Canadian Emergency Business Account Program ("CEBA Loan"), which provides financial relief for Canadian small businesses during the COVID-19 pandemic. The CEBA Loan has an initial term date on December 31, 2022 (the "Initial Term Date") and may be extended to December 31, 2025. The CEBA Loan is non-revolving, with an interest rate being 0% per annum prior to the Initial Term Date and 5% per annum. Repaying the balance of the CEBA loan on or before December 31, 2023 will result in a loan forgiveness of $10,000.

To estimate the fair value, the debt component was estimated first at $33,242, using a 7.5% effective rate which corresponds to a rate that the Company would have obtained for a similar investment. The Company recognized a finance expense of $1,347 (2021 - $1,254) in the condensed interim consolidated statements of loss and comprehensive loss for the six months ended June 30, 2022 .

		June 30, 2022		December 31, 2021
Opening	$	**37,233**	$	34,657
Finance expense		**1,347**		2,576
Total	$	**38,580**	$	37,233

16. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares.

	Number of shares		Amount
Balance December 31, 2020	**45,568,000**	**$**	**2,917,267**
Private placement, net (i)	21,992,333		1,891,817
Private placement, net (ii)	17,417,013		1,476,016
Issued for services (iii)	1,082,251		200,000
Issued pursuant to MSC acquisition (Note 4)	68,212,896		3,137,793
Issued for services (Note 4)	1,765,000		118,778
Issued on exercise of options	24,000		5,707
Issued pursuant to Termination Agreement (Note 9 (1))	3,040,000		130,466
Balance December 31, 2021	**159,101,493**		**9,877,844**
Issued pursuant to Steep Hill US acquisition (Note 4)	84,870,000		1,990,728
Balance June 30, 2022	**243,971,493**	**$**	**11,868,572**

(i) On February 23, 2021, the Company closed the first tranche of non-brokered financing with gross proceeds of $2,639,080 through issuance of 21,992,333 units at a price of $0.12 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 on or before February 23, 2023, provided, however if the closing price of the common shares 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 private placement, the Company 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.

16. SHARE CAPITAL (continued)

The allocation of the $0.12 per Unit issue price to the common shares and warrants was determined based on the relative fair values of the common shares and warrants. The fair value of the warrants was determined using the Barrier model. The common shares issued were allocated a price of $0.091 per share and the warrants were allocated a price of $0.0290. Assumptions used to determine the value of the common share warrant were: risk-free interest rate of 0.23%; dividend yield of nil%; weighted average expected volatility of 138.5%; and expected life of 2 years.

The Company paid total of $99,532 of issuance costs and issued 689,920 of broker warrants, which includes $53,595 of issuance costs paid and 446,623 broker warrants issued to Florence Wealth Management Inc. ("Florence"). Raj Ravindran, CFO and director of the Company is the ultimate designated person and CEO of Florence. The brokers warrants have the same terms as the warrants issued in the private placement. The net proceeds of the private placement have been allocated as $1,891,817 to share capital and $647,732 to warrant reserve (Note 17).

(ii) March 8, 2021, the Company closed the second and final tranche of non-brokered financing with gross proceeds of $2,090,042 through issuance of 17,417,013 units at a price of $0.12 per Unit. Each unit is comprised of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one additional Common Share at an exercise price of $0.22 on or before March 8, 2023, provided, however that if the closing price of the common shares 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 private placement, the Company 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.

The allocation of the $0.12 per Unit issue price to the common shares and warrants was determined based on the relative fair values of the common shares and warrants. The fair value of the warrants was determined using the Barrier model. The common shares issued were allocated a price of $0.090 per share and the warrants were allocated a price of $0.030. Assumptions used to determine the value of the warrants were: risk-free interest rate of 0.29%; dividend yield of nil%; weighted average expected volatility of 139.1%; and expected life of 2 years.

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. The brokers warrants have the same terms as the warrants issued in the private placement.

The net proceeds of the private placement have been allocated as $1,476,016 to share capital and $532,076 to warrant reserve (Note 17).

(iii) The Company issued a total of 1,082,251 common shares to a consultant of the Company on January 4, 2021 and March 8, 2021 valued at $200,000 based on the fair value of the services provided.

Net loss per share

Basic net loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of shares outstanding, made up of common shares. Diluted net loss per share is calculated by adjusting the loss for the period and number of shares for the effects of dilutive options and other dilutive potential ordinary shares. However, there were no options or financial instruments with dilutive potential ordinary shares as at June 30, 2022 (2021 – nil). Thus, the diluted net loss per share was the same as the calculated basic net loss per share.

(Expressed in Canadian dollars)

16. SHARE CAPITAL (continued)

The weighted average number of shares outstanding used in the computation of loss per share for the six months ended June 30, 2022 was 193,979,575 (2021 – 58,864,583).

For the six months ended June 30,		2022		2021
Loss attributable to common shareholders	$	(1,927,467)	$	(1,437,228)
Weighted average number of common shares outstanding		193,979,575		58,864,583
Loss per share basic and diluted	**$**	**(0.01)**	**$**	**(0.02)**

17. RESERVES

Reserves include (i) the accumulated fair value of stock options recognized as share-based compensation, and (ii) the fair value of warrants issued in private placements and for share issue costs. Reserves are increased by the fair value of these items as they vest and are reduced by corresponding amounts when the options or warrants expire or are exercised or cancelled.

SHARE-BASED COMPENSATION
The Company has a common share 20% Rolling Plan (the "Plan") for designated directors, officers, employees, and consultants. Pursuant to the Plan, option awards are recommended by the Compensation Committee of the Board and then reviewed by the Board of Directors. Under the Plan, options on common shares may be issued for up to a cumulative amount that may not exceed 10% of shares outstanding at any given time. As at June 30, 2022 , the Company had 20,038,041 options reserved on common shares.

The following table summarizes the continuity of stock options:

	Number of options	Weighted average exercise price $
Outstanding, December 31, 2020	**6,050,000**	**0.032**
Issued (i) (ii) (iii) (iv) (v)	8,500,000	0.044
Exercised	(24,000)	0.000
Outstanding, December 31, 2021	**14,526,000**	
Issued (vi)	9,000,000	0.031
Outstanding, June 30, 2022	**23,526,000**	**0.106**

(i) On January 15, 2021, the Company granted 300,000 stock options valued at $58,025 to a consultant with exercise price of $0.22 for 4 years, expiring on January 15, 2025.

(ii) On January 18, 2021, the Company granted 300,000 stock options valued at $58,025 to a consultant with exercise price of $0.22 for 4 years, expiring on January 18, 2025.

(iii) On January 20, 2021, the Company granted 300,000 stock options valued at $45,399 to a consultant with exercise price of $0.22 for 4 years, expiring on January 20, 2025.

(iv) On March 30, 2021, the Company granted 600,000 stock options valued at $88,114 to consultants with exercise price of $0.22 for 4 years, expiring on March 30, 2025.

(v) On August 9, 2021, the Company granted 7,000,000 stock options valued at $498,987 to directors, employees, officers, and consultants of the Company. The options have an exercise price of $0.10 and a term of 5 years expiring on August 5, 2026.

(Expressed in Canadian dollars)

17. RESERVES (continued)

(vi) On May 3, 2022, the Company granted 9,000,000 options to certain directors, officers, employees and consultants of the Company. The options are exercisable at a price of $0.08 with each option exercisable to purchase one common share of the Company. The options expire on May 3, 2025. Included in the 9,000,000 options issued were 1,500,000 options issued pursuant to the settlement agreement entered on March 24, 2022 (Note 21 (b)).

The fair value of the options granted was estimated on the date of the grant using the Black-Scholes option pricing model, with the following assumption ranges:

	Six months ended June 30, 2022	Year ended December 31, 2021
Volatility	123%	114-155%
Expected life	5 years	4 - 5 years
Risk-free interest rate	2.84%	0.34 - 0.88%
Forfeiture rate	0%	0%
Expected dividend yield	0%	0%

The following stock options are outstanding and exercisable as at June 30, 2022:

Options outstanding and exercisable			
Exercise price $	Number of Options	Remaining contractual life in years	Weighted average exercise price $
0.125	6,026,000	3.41	0.03
0.22	300,000	2.55	0.00
0.22	300,000	2.56	0.00
0.22	300,000	2.56	0.00
0.22	600,000	2.75	0.01
0.10	7,000,000	4.10	0.03
0.08	9,000,000	4.84	0.03
	23,526,000	**4.12**	**0.11**

WARRANTS

Warrant activity is presented below:

	Number of warrants	Weighted average exercise price $
Outstanding, December 31, 2020	**5,000,000**	**0.20**
Issued (Note 16 (i))	22,682,253	0.22
Issued (Note 16 (ii))	17,989,438	0.22
Issued (Note 4)	49,630,491	0.30
Expired	(5,000,000)	0.20
Outstanding, December 31, 2021 and June 30, 2022	**44,630,491**	**0.23**

(Expressed in Canadian dollars)

17. RESERVES (continued)

The fair value of the warrants was estimated on the date of the issuance using either with the Black-Scholes option pricing model or Barrier model, with the following assumption ranges:

	Year ended December 31, 2021
Volatility	155.3 - 169%
Expected life	2 -3 years
Risk-free interest rate	0.23 – 0.65%
Forfeiture rate	0%
Expected dividend yield	0%

The following warrants are outstanding and exercisable as at June 30, 2022:

Warrants outstanding and exercisable			
Exercise price $	Number of Warrants	Remaining contractual life in years	Weighted average exercise price $
0.22	21,992,333	0.65	0.11
0.22	689,920	0.65	0.00
0.22	17,417,013	0.69	0.09
0.22	572,425	0.69	0.00
0.30	3,958,800	2.02	0.03
	44,630,491	**0.79**	**0.23**

18. NON-CONTROLLING INTERESTS

Summarized financial information, before intragroup eliminations, is set out as below:

	June 30, 2022		
	D580 Inc.	D238 Inc.	D172 Inc.
Current assets	$ 120	$ 80	$ 80
Non-current assets	-	20,238	-
Total assets	**120**	**20,318**	**80**
Current liabilities	-	18,078	-
Non-current liabilities	25,380	30,795	301,427
Total liabilities	**25,380**	**48,873**	**301,427**
Equity attributable to shareholders of the Company	(15,204)	(25,391)	(261,035)
Non-controlling interests	**$ (10,056)**	**$ (3,164)**	**$ (40,312)**

(Expressed in Canadian dollars)

18. NON-CONTROLLING INTERESTS (continued)

	June 30, 2022		
	D580 Inc.	D238 Inc.	D172 Inc.
Net income (loss) and comprehensive income (loss) attributable to shareholders of the Company	$ 11,834	$ (2,848)	$ (110)
Net income (loss) and comprehensive income (loss) attributable to NCI	$ 7,889	$ (356)	$ (14)

	December 31, 2021		
	D580 Inc.	D238 Inc.	D172 Inc.
Current assets	$ 120	$ 80	$ 80
Non-current assets	-	22,746	-
Total assets	**120**	**22,826**	**80**
Current liabilities	19,723	20,381	-
Non-current liabilities	26,260	27,715	301,303
Total liabilities	**44,983**	**48,096**	**301,303**
Equity attributable to shareholders of the Company	(26,918)	(22,462)	(260,925)
Non-controlling interests	**$ (17,945)**	**$ (2,808)**	**$ (40,298)**

	June 30, 2021		
	D580 Inc.	D238 Inc.	D172 Inc.
Net loss and comprehensive loss attributable to shareholders of the Company	$ (7,196)	$ (2,986)	$ (31,951)
Net loss and comprehensive loss attributable to NCI	$ (4,797)	$ (373)	$ (3,994)

19. 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 six months ended June 30,	**2022**	2021
Salaries, benefits and consulting fees	**$** 211,052	$ 129,100
Director fees	24,000	10,000
Share-based compensation	30,366	-
	$ 265,418	$ **139,000**

As of June 30, 2022, the Company had $43,033 (2021 - $26,050) of unpaid consulting fees to key management personnel and directors' fees to directors included in accounts payable and accrued liabilities.

19. RELATED PARTY TRANSACTIONS (continued)

Related party transactions

During the six months ended June 30, 2022, the Company incurred rental fees of $6,900 (2021 - $Nil) and consulting fees of $21,225 (2021 - $Nil) from Summerhill Group Inc ("SGI"). SGI is a company in which the Company's Chairman and director, Ian Morton, is the majority shareholder. As of June 30, 2022, $20,105 (2021 - $Nil) was due to SGI.

During the six months ended June 30, 2022, the Company incurred consulting fees of $45,942 (2021 - $Nil) from Eco Generation Home Services Inc. ("EGHS"). EGHS is a company in which Ian Morton has a 100% ownership interest. As of June 30, 2022, $22,680 (2021 - $Nil) was due to EGHS.

20. FINANCIAL RISK MANAGEMENT

The Company's objective is to maintain sufficient capital to maintain investor, creditor and customer confidence and to sustain future development of the business and to provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management. The Company has not paid any dividends to its shareholders. The Company is not subject to any externally imposed capital requirements.

As at June 30, 2022 , the Company's total managed capital comprised of equity attributable to the equity holders of the Company $6,010,056 (December 31, 2021 - $5,769,919). There were no changes in the Company's approach to capital management during the period.

(a) Fair value

Financial instruments included in the condensed interim consolidated statement of financial position as at June 30, 2022 consist of cash, accounts receivable, accrued liabilities and payables, loan payable and CEBA loan with period-end carrying amounts which approximates their respective fair values.

(b) Interest rate risk

The Company does not have any debts or borrowings from any banks or institutional lenders as at June 30, 2022 , except for CEBA loan (Note 15), which is non-interest bearing until December 31, 2022 and loan payable with a fixed interest rate.

(c) Currency risk

The Company's balances are all in Canadian dollars as of June 30, 2022 , so the Company is not exposed to any currency risks from its financial instruments.

(d) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents and trade receivables. All of the Company's cash is held at financial institutions which are Canadian Chartered Banks or fund held in trust with legal counsel in which management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

As at June 30, 2022, the aggregate credit risk exposure related to trade receivables were $1,264,643 (2021 - $Nil).

(Expressed in Canadian dollars)

20. FINANCIAL RISK MANAGEMENT (continued)

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. The loss allowance provision is based on the Company's historical collection and loss.

The Company considers an impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganization; and/or
- default or delinquency in payments

(e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company enters into transactions to purchase services on credit, for which repayment is required at various maturity dates.

The Company manages the liquidity risk resulting from accounts payable and accrued liabilities, loan payable and CEBA loan by ensuring that it documents when authorized payments are due and maintaining adequate cash reserves to meet its obligations as they come due.

In addition to the commitments in Note 21, the Company has the following undiscounted contractual obligations as at June 30, 2022 , which are expected to be payable in the following respective periods:

	Within 1 year	Over 1 year	Total
Accounts payable and accrued liabilities	$ 1,891,096	$ −	$ 1,891,096
CEBA loan	40,000	−	40,000
Loan payable	107,397	−	107,397
Lease liability	92,482	401,346	493,828
Total	$ 2,130,975	$ 401,346	$ 2,532,321

As of June 30, 2022 , the Company had cash of $1,486,880 (2021 - $2,576,488) and total equity attributable to the equity holders of the Company was $6,010,056 (2021 - $5,769,919). The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting, and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. There are no externally imposed capital requirements to which the Company has not complied.

21. COMMITMENTS AND CONTIGENT LIABILITIES

a) Non-controlling interest

The Company entered into definitive lease agreements with various landowners and transaction facilitators in 2019 for its corporate office and hemp CBD cultivation lands. Additionally, the Company, through DEPL Corp., with Martin Ciuk for the sole purpose of establishing a distribution and marketing channel for the sale of hemp CBD products in Europe (EU economic region). Based on the following specified terms in each executed agreement, the Company is obligated to issue equity shares (membership interests) to the respective landowners and transaction counterparties:

21. COMMITMENTS AND CONTIGENT LIABILITIES (continued)

D238 Inc.
In addition to the lease rentals (Note 14), landowners shall be paid 10% of the net profit from operations of D238 Inc. in each respective calendar year from January to December. Landowners shall have the option after the end of the first year of the first 3-year lease term to convert the 10% profit sharing into 10% equity shares in D238 Inc. This entity is inactive and has generated no net profit during the six months ended June 30, 2022 and 2021.

D172 Inc.
In addition to the lease rentals (Note 14), landowners shall be paid 10% of the net profit from operations of the D172 Inc. in each respective calendar year from January to December. Landowners shall have the option after the end of the first year of the first 3-year lease term to convert the 10% profit sharing into 10% equity shares in D172 Inc. This entity is inactive and has generated no net profit during the six months ended June 30, 2022 and 2021.

b) Contingent liabilities

On March 24, 2022, the Company entered into a settlement agreement related to a complaint against Steep Hill US filed on March 14, 2018. Pursuant to the settlement agreement, the Company is required to pay a total of $235,170 (US$182,500) (“settlement amount”) and grant a total of 1,500,000 options, with each option entitling the holder to acquire a common share of the Company, at any time in the next 3 years at an exercise price of no higher than $0.08. The settlement amount was included in the accounts payable and accrued liabilities assumed on acquisition of Steep Hill US (Note 4). During the six months ended June 30, 2022, the Company paid $101,872 (US$80,000) (2021 - $Nil) and as of June 30, 2022, a total of $132,082 (US$102,500) (2021 - $Nil) is included in the accounts payable and accrued liabilities.

22. SUBSEQUENT EVENTS

Subsequent to June 30, 2022, the Company dissolved its inactive subsidiaries, specifically D580 Inc., D172 Inc., DEPL and Empathy. Additionally, the Company changed the name of one of its subsidiaries, from Molecular Science Labs Corp. to Steep Hill Canada Inc.