



STEEP HILL INC. (formerly Canbud Distribution Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2022

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 six months ended June 30, 2022. 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 August 19, 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 30 Commercial Road, Toronto, Ontario, Canada M4G 1Z3.

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

Steep Hill Inc. is a science and technology company focused on analytical testing services, quality assurance, and data analytics to the hemp and cannabis sectors.

Company Background:

The Company was started as a Hemp focused Science and Technology company to provide science-backed differentiated products and services that are critical to the sector and to ensure all products and services meet the highest standards of quality, safety and adherence to compliance standards and requirements. 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.

Hemp Related Information:

As of the date hereof, Canbud D2385NR Inc. ("Canbud D23") holds one industrial hemp license for the purposes of supplying cannabinoid-based products. 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"). The company has decided to terminate this license and close this subsidiary in Q3 of 2022.

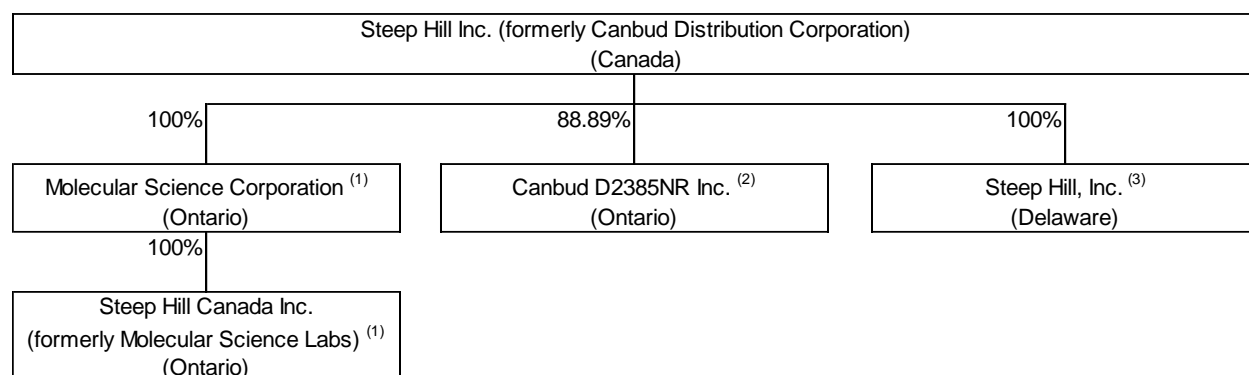
Entry into the analytical testing services market:

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. On January 31, 2022, Canbud completed its acquisition of US-based Steep Hill, Inc. ("**Steep Hill US**"), a cannabis science company in the business of providing lab testing knowhow, 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 March 31, 2021, the Company had 18 full-time staff and 8 consultants primarily based in Ontario, Canada, and Berkeley, California including the executives.

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, as of the date hereof.



Notes:

(1) Acquired on July 8, 2021.

(2) Incorporated on October 22, 2019

(3) Acquired on January 31, 2022.

In July 2022, the Company dissolved the following inactive subsidiaries:

- Canbud D580H124 Inc. ("D580 Inc")
- Canbud D1726KC Inc. ("D172 Inc")
- Canbud DEPL Corp. ("DEPL Corp")
- Empathy Plant Co. ("Empathy").

SECOND QUARTER 2022 CORPORATE HIGHLIGHTS AND UP TO THE DATE HEREOF

In the second quarter of 2022, the Company has fully integrated the operation of Steep Hill US into Steep Hill Corporate.

On May 6, 2022, Steep Hill granted an aggregate of 9,000,000 Options to certain directors, officers, employees, and consultants of the Company, including to executives and employees at its wholly owned subsidiary, Steep Hill (US) Inc. The Options are exercisable at a price of \$0.08 per Option. The Options granted vest in four months and expire on May 3, 2025. Each Option is exercisable to purchase one common share in the capital of the Company.

On May 6, 2022, Steep Hill announced that it has entered into a licensing agreement (the "Licence Agreement") with SH Lab Holdings LLC ("Steep Hill Vermont"), expanding its network of licensees to the state of Vermont.

On July 25, 2022, Steep Hill was named as one of several defendants in a complaint filed in the United States District Court for the Eastern District of Arkansas. The complaint, brought by purchasers of medical marijuana in Arkansas, on behalf of a proposed class, alleges that the Company's licensee, Steep Hill Arkansas, and Arkansas based cannabis cultivators, violated federal laws prohibiting the cultivation and sale of marijuana and overstated the amount of THC in certain cannabis products.

BUSINESS OVERVIEW AND DISCUSSION

Hemp Business

Due to over-supply of hemp CBD in the market forced the Company to only renew one of the 3 licenses it had. The company renewed the Lakefield industrial hemp licence. The renewal was effective as of November 5, 2021, and it expires on May 4, 2023. The Lakefield property presents the least cost to maintain of \$500 per month. To put all its efforts into analytical testing, the company decided to voluntarily submit a request to cancel the hemp cultivation license and close the Hemp subsidiary.

Distribution Channel Development

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

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 reevaluating 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.

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\$1,120.51M 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*.

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 consulting 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 Steep Hill US.

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 eight quarters is set out below.

	Quarter ended June 30, 2022 \$	Quarter ended March 31, 2022 \$	Quarter ended December 31, 2021 \$	Quarter ended September 30, 2021 \$
Loss before other income (expenses)	(1,042,896)	(743,639)	(1,232,518)	(1,182,918)
Other expenses	5,891	(144,041)	(536,654)	(145,774)
Net loss	(1,039,787)	(887,680)	(1,769,470)	(1,328,694)
Total comprehensive loss	(985,917)	(884,269)	(1,769,470)	(1,328,694)
Net loss per share*	(0.00)	(0.01)	(0.01)	(0.01)
	Quarter ended June 30, 2021 \$	Quarter ended March 31, 2021 \$	Quarter ended December 31, 2020 \$	Quarter ended September 30, 2020 \$
Loss before other income (expenses)	(467,105)	(964,360)	(1,709,746)	125,204
Other income	(7,311)	(7,616)	(7,925)	(259)
Net loss	(474,416)	(971,676)	(1,717,670)	124,945
Total comprehensive income (loss)	(474,416)	(971,976)	(1,717,670)	124,945
Net loss per share*	(0.01)	(0.01)	(0.02)	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 three months ended June 30, 2022

The Company generated operating revenues of \$1,160,878 (2021 - \$Nil) during the three months ended June 30, 2022. A total of \$662,895 (2021 - \$Nil) was generated from Steep Hill US, a newly acquired wholly owned subsidiary in January 2022 and a total of \$497,982 (2021 - \$Nil) was generated from MSC, a wholly owned subsidiary acquired in July 2021.

The Company recorded net loss before other income (expense) of \$1,042,896 for the three months ended June 30, 2022, compared to \$467,105 for the three months ended June 30, 2021. In the comparative period, the net loss resulted from operations in Steep Hill Canada. The increase in the net loss before other income (expense) was primarily derived from the net loss in MSC and Steep Hill US of \$309,000 and \$245,565, respectively, during the three months ended June 30, 2022.

- Laboratory expenses for the three months ended June 30, 2022 was \$274,131. Laboratory expenses are expenditures related to operating the testing laboratory in MSC.
- Professional fees for the three months ended June 30, 2022 increase by \$190,668, compared to comparative period. A total of \$85,817 professional fees was incurred in Steep Hill US, of which \$82,847 was related to legal fees. Additionally, as the Company expected an increased audit fee, the Company has accrued an additional of approximately \$45,000 from the comparative audit fees accrual.
- Salaries and wages for the three months ended June 30, 2022 was \$848,640. A total of \$243,632 of salaries and wages was incurred in MSC with the remainder, \$551,051, was incurred in Steep Hill US.
- Share-based compensation for the three months ended June 30, 2022 was \$127,114. The Company granted 9,000,000 options to certain directors, officers, employees and consultants of the Company in May 2022. In the comparative fiscal year, the Company granted 7,000,000 options to certain directors, officers, employees and consultants of the Company in August 2022.

For the six months ended June 30, 2022

The Company generated operating revenues of \$2,064,333 (2021 - \$Nil) during the three months ended June 30, 2022. A total of \$1,149,758 (2021 - \$Nil) was generated from Steep Hill US, a newly acquired wholly owned subsidiary in January 2022 and a total of \$914,575 (2021 - \$Nil) was generated from MSC, a wholly owned subsidiary acquired in July 2021.

The Company recorded net loss before other income (expense) of \$1,786,535 for the six months ended June 30, 2022, compared to \$1,431,451 for the six months ended June 30, 2021. The increase in net loss before other income (expense) was primarily derived from net loss in MSC and Steep Hill US of \$567,440 and \$468,950, respectively, during the six months ended June 30, 2022.

- Allowance for expensed credit losses for the six months ended June 30, 2022 increased by \$196,112, compared to comparative period. 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.
- Laboratory expenses for the six months ended June 30, 2022 increased by \$426,464, compared to comparative period. Laboratory expenses are expenditures related to operating the testing laboratory in MSC.
- Professional fees for the six months ended June 30, 2022 increased by \$361,481, compared to comparative period. A total of \$264,949 and \$139,316 professional fees were incurred in Steep Hill US and Steep Hill Inc., respectively. Approximately 50% of the increase in professional fees is related to legal fees incurred in Steep Hill US.

- Salaries and benefits for the six months ended June 30, 2022 was \$1,373,301 (2021 - \$Nil). A total of \$496,184 and \$786,062 were incurred in MSC and Steep Hill US, respectively. A total of \$91,055 was related to compensation to a senior management that had previously grouped in consulting fees.

The increased in expenses is offset by the following:

- Reduction of \$162,453 of marketing and promotion for the six months ended June 30, 2022, compared to the comparative period. The Company terminated several marketing and promotion services in late 2021.
- A decrease of \$332,399 in consulting fees for the six months ended June 30, 2022, compared to the comparative period. Included in the comparative period was a total expense of \$215,151 in connection to issuance of a total of 1,082,251 common shares to a consultant of the Company to develop the plan-based protein market.
- The Company incurred \$127,114 in share-based compensation during the six months ended June 30, 2022 (2021 - \$249,563). The Company granted a total of 9,000,000 options in the first two quarters of 2022, while in the comparative period, the Company granted a total of 1,500,000. The fair value per option has significantly decreased from last year due to the decline in the value of the shares as well as the increase in expiry term of the options granted, specifically from 3 years expiry term in comparative period to 5 years expiry term for the 9,000,000 options granted in May 2022.

The Company recorded a net loss of \$1,927,467 for the six months ended June 30, 2022, an increase of \$481,089 compared to the three months ended June 30, 2021. The increase is primarily due increased in operating loss, offset by the revenue generated in the current period of \$2,064,333 (2021 - \$Nil). Additionally, the Company incurred acquisition-related costs of \$116,164 (2021 - \$Nil). The acquisition-related cost was primarily related to the issuance of 2,870,000 common shares for advisory fees, valued at \$114,800, related to Steep Hill US's acquisition.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2022, the Company had a deficit of \$8,866,852 (2021 - \$6,931,866). For the six months ended June 30, 2022, the Company's net loss was \$1,927,467 (2021- \$1,446,378), negative cash flows from operating activities for the six months ended June 30, 2022 were \$1,802,216 (2021 - \$1,068,145) and working capital deficiency of \$1,174,565 (2021 – working capital of \$1,631,868) as of June 30, 2022. The Company's ability to continue as a going concern is dependent upon its existing working capital and obtaining the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. The Company's working capital may not meet corporate, development, administrative and property obligations for the coming year. As a result, the Company may require additional financing and, while the Company has been successful in raising equity financing through the issuances of common shares in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms. As such, there remains significant doubt as to the Company's ability to continue as a going concern.

Three months ended June 30, 2022

Cash used in operating activities was \$900,281 during the three months ended June 30, 2022, an increase of \$409,131 from the comparative period. The increase is directly attributable in the increase of the net loss of the period of \$481,075. The Company did not generate any cash inflow in the comparative period.

Cash generated in investing activities was \$Nil, an increase of \$500,000 from comparative period. In the comparative period, the Company paid acquisition-related advance of \$500,000 MSC.

Cash used in financing activities was \$29,200, an increase of \$5,743 from comparative period. The increase is primarily due to the increase of lease liability for the three months ended June 30, 2022.

Six months ended June 30, 2022

Cash used in operating activities was \$1,802,216 during the three months ended June 30, 2022, an increase of \$734,071 from the comparative period. The increase is due to the increase net loss as well as in non-cash working capital items of \$660,461, primarily related to the accounts payable and accrued liabilities, compared to the comparative period. The Company did not generate any cash inflow in the comparative period.

Cash generated in investing activities was \$757,846, an increase of \$1,323,343 from comparative period. The increase is primarily due to a total of \$757,846 acquired in connection with the acquisition of Steep Hill US in January 2022. In the comparative period, the Company paid acquisition-related payments and advances of \$66,497 to 2688453 Ontario Inc and \$500,000 advance made to MSC (prior to the acquisition).

Cash used in financing activities was \$108,508, an increase of \$4,607,532 from comparative period. During the six months ended June 30, 2021, the Company closed 2 tranches of non-brokered private placements with an aggregate net proceed of \$4,547,640.

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 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.

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.

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.

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 willing 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 criteria by the entity:

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

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 June 30, 2022, share capital consisted of:

- 243,971,493 issued and outstanding common shares;
- 23,526,000 options outstanding with exercise price ranges from \$0.10 to \$0.22 and weighted average remaining contractual life of 4.12 years; and
- 44,630,491 outstanding warrants with exercise price ranging from \$0.22 to \$0.30 and weighted average remaining contractual life of 1.04 years.

As at August 19, 2022, share capital consisted of:

- 243,971,493 issued and outstanding common shares;
- 23,526,000 options outstanding with exercise price ranges from \$0.10 to \$0.22; and
- 44,630,491 outstanding warrants with exercise price ranging from \$0.22 to \$0.30.

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.

As illustrated by the recently published financial results of publicly listed Canadian Cannabis companies, the Cannabis sector has been experiencing a state of rapid decline leading to increased losses, driven by several factors such as excess capacity relative to demand, continued excise tax impact and pressure to offer additional discounts to drive sales. Consequently, there has been pricing compression in the Cannabis testing sector with several exits in the sector. A recent industry report indicates that 47% of Companies' Creditors Arrangement Act ("CCAA") filings to date in 2022 are cannabis companies. Since acquisition of MSC in July 2021, several mitigating measures were undertaken such as reduction of headcount, continued optimization of the operations, and pursuit of additional revenue opportunities such as the addition of in-house micro-testing.

During the first half of 2022, as the headwinds have increased, driven primarily by inflationary pressure, we have been experiencing continued overall decline in revenue. While new business has been generated, significant discount offerings to new customers were necessary. The new business was essential to increase utilization rate of the facility, given the fixed nature of labour, rent and other costs. While this has caused a modest rebound in revenue during the second quarter of 2022, the quantum of has not been enough to stem operating losses. This is prior to factoring in any corporate cost allocation to the business segment. In addition, the 5-year rent agreement of the Company's laboratory in Canada expires at the end of August 2022 and while efforts have been underway to renew the terms on a mutually acceptable terms, the Company may be faced with escalated tenancy cost. Inability to renew on favourable terms and address other physical deficiencies may impact the operations.

As a result, the Board is currently evaluating a review of operations of the subsidiary including assessment of the viability of the 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.

Within the Cannabis analytical testing market, there are several challenges such as “lab shopping” by customers leading to price competition, increased labor costs and input costs with some pricing pressure as more laboratories enter the fray. These are challenges faced in every sector that is undergoing structural changes with new US state regulations being implemented and key aspects of the supply chain get refined and readjusted in a rapidly changing sector.

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 reality 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 several 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 June 30, 2022, 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 AND CONTINGENT LIABILITIES

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.

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.

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.