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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 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 year ended December 31, 2022. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2022 and 2021. Those financial statements are presented in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all dollar amounts refer to Canadian funds. Information herein includes any significant developments up to May 1, 2023, 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: fluctuations in market conditions, including in securities markets; economic factors; and the ability of management to execute its business strategy, objectives and plans. 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

Corporate Overview
Steep Hill Inc. (the "Company" or "Steep Hill") (formerly Canbud Distribution Corporation) was incorporated under the *Canadian Business Corporations Act* on October 4, 2018 as Cannabis Clonal Corporation and later changed to Canbud Distribution Corporation. 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 stock ticker symbol on the CSE is "**STPH**".

All dollar values are expressed in Canadian dollars unless otherwise indicated.

The Company was incorporated to provide hemp-based science-backed differentiated products and services that were viewed as important to the sector. Additionally, the company's focus was to ensure products and services meet the highest standards of quality, safety and adherence to compliance standards and requirements. In the third quarter of 2021, as part of its ongoing review process and based on the changes in market conditions such as consumer demand, competitive dynamics and capital allocation, the Company assessed the need to maintain several cultivation locations in Canada . The decision was made to curtail investment in this business.

FOURTH QUARTER 2022 CORPORATE HIGHLIGHTS AND UP TO THE DATE HEREOF

Given the continued economic turmoil including rapid inflationary pressure, capital market conditions and rapid decline in the Canadian cannabis sector, the company concluded an evaluation of its Canadian operations in the third quarter of 2022 and decided in September 2022 to close its analytical testing facility in Scarborough, Ontario. Subsequently, on October 21, 2022, the Company's wholly owned subsidiary, Molecular Science Corp., and its indirect wholly owned subsidiary, Steep Hill Canada Inc. (formerly Molecular Science Labs Corp.), (collectively, the "MSC group"), appointed a Trustee and filed for bankruptcy proceedings ("OSBC filings") with Office of Superintendent of Bankruptcy Canada ("OSBC"). As a result of OSBC filings, the appointed Trustee became responsible for the business and financial affairs of MSC group.

On August 9, 2021, the Company entered into a LOI with Steep Hill, Inc. (**"**Steep Hill US") to acquire all of the issued and outstanding shares of SH. Steep Hill US was founded in 2008 and became one of the premier analytical testing services consulting companies in United States. Steep Hill US's primary business was 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, the Company completed its acquisition of SH whereby 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 the Company's Shares.

During the year ended December 31, 2022, Steep Hill US generated a total of $1,897,769 in revenue, of which $1,840,830 was from royalty fees and $56,939 was from licensing.

In March 2023, Steep Hill announced that it entered into a settlement and release agreement (the "Termination Agreement") with its wholly owned subsidiary, Steep Hill US and Green Analytics MD, LLC, Green Analytics Massachusetts LLC, Green Analytics East LLC, Green Analytics North LLC, Green Analytics Virginia, LLC, Green Analytics West Virginia, LLC, and Green Analytics New York, LLC. (Collectively, the "Green Analytics Parties"). Under the terms of the Termination Agreement, Steep Hill US and the Green Analytics Parties agreed that, effective as of February 28, 2023, the respective license agreements between Steep Hill US and the Green Analytics Parties terminated. The Green Analytics Parties in Massachusetts, New Jersey and Pennsylvania accounted for approximately US$1.29 million of the Company's consolidated revenues, representing approximately 83% of the Company's total royalty revenues. Subsequently, on April 4, 2023, the Company announced that it had negotiated similar settlement and release agreements with the other licensees. As a result, Steep Hill US has ceased current operations in the US effectively in April 2023.

Following the settlement and terminations agreements as announced on March 1, 2023 and April 4, 2023, the Company has no operations in Canada and the US and is currently in the midst of restructuring its business and exploring strategic initiatives.

Hemp Related Business:
Driven largely due to continued over-supply of hemp CBD in the Canadian market, the Company evaluated its hemp operations and terminated all hemp-related licenses in 2021, with the exception with the industrial hemp license held by Canbud D2385 NR Inc., which was terminated in 2022. In connection with the industrial hemp license held by Canbud D23, Canbud D23 held a lease 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 license was formally voluntarily revoked pursuant the Canbud D23's request to Health Canada which was accepted on November 22 2022.

During the year ended December 31, 2022, the Company dissolved the following inactive subsidiaries (collectively "Canbud group"):

- Canbud D580H124 Inc. ("D580 Inc")
- Canbud D1726KC Inc. ("D172 Inc")
- Canbud DEPL Corp. ("DEPL Corp")
- Canbud D2385NR Inc. ("Canbud D23")
- Empathy Plant Co. ("Empathy").

Annual Information

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

	Year ended December 31, 2022 $	**Year ended December 31, 2021 $**	**Year ended December 31, 2020 $**
Current assets	2,573,678	2,910,708	502,328
Total assets	3,015,934	7,433,994	1,702,899
Current liabilities	2,151,068	1,278,840	184,817
Total liabilities	2,173,595	1,725,126	551,847
Loss before other income (expenses)	(7,639,976)	(3,846,901)	(2,121,345)
Other income (expenses)	390,757	(697,355)	1,479
Net loss before income taxes	(7,249,219)	(4,544,256)	(2,119,866)
Net Loss	(7,114,120)	(4,544,256)	(2,119,866)
Total loss and comprehensive loss	(7,182,156)	(4,544,256)	(2,119,866)
Net loss per share – basic and diluted	0.03	0.05	0.05

SELECTED QUARTERLY FINANCIAL INFORMATION

Selected financial information for the previous eight quarters is set out below.

	Quarter ended December 31, 2022 $	**Quarter ended September 30, 2022 $**	**Quarter ended June 30, 2022 $**	**Quarter ended March 31, 2022 $**
Loss before other income (expenses)	(5,777,083)	(76,358)	(1,042,896)	(743,639)
Other expenses	625,606	(96,699)	5,891	(144,041)
Loss from discontinued operations	2,495,407	(2,495,407)	-	-
Net loss	(1,039,787)	(2,592,106)	(1,039,787)	(887,680)
Total comprehensive loss	(2,822,427)	(2,489,543)	(985,917)	(884,269)
Net loss per share*	(0.01)	(0.01)	(0.00)	(0.01)
	Quarter ended December 31, 2021 $	**Quarter ended September 30, 2021 $**	**Quarter ended June 30, 2021 $**	**Quarter ended March 31, 2021 $**
Loss before other income (expenses)	(1,232,518)	(1,182,918)	(467,105)	(964,360)
Other income	(536,654)	(145,774)	(7,311)	(7,616)
Net loss	(1,769,470)	(1,328,694)	(474,416)	(971,676)
Total comprehensive income (loss)	(1,769,470)	(1,328,694)	(474,416)	(971,976)
Net loss per share*	(0.01)	(0.01)	(0.01)	(0.01)

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

SUMMARY OF ANNUAL AND FOURTH QUARTER RESULTS

Results of Operations

For the year ended December 31, 2022

During the year ended December 31, 2022, the Company generated a total operating revenue of $3,073,244 (2021 - $938,573).

	December 31, 2022	**December 31, 2021**
Royalty fees	$ **1,840,830**	$ –
Licensing	**56,939**	–
Lab testing services	**1,175,475**	938,573
Total	$ **3,073,244**	$ 938,573

Royalty fees and licensing revenues were generated from Steep Hill US, a wholly owned subsidiary that the Company acquired in January 2022. Lab testing services revenue were generated from MSC group, which was acquired in July 2021, and subsequently shut down in August 2022.

Subsequent to December 31, 2022, the Company, through Steep Hill US, entered into settlement and release agreements with various licensees to terminate the license agreements. The Company does not expect to generate revenue from any of the sources above from April 2023 onwards.

The Company recorded net loss before other income (expense) of $7,639,976 for the year ended December 31, 2022, an increase of $3,793,075, compared to $3,846,901 in the comparative period. The increase in net loss before other income (expense) was primarily derived from:

- Impairment of property, plant and equipment of $1,251,764, an increase of $1,024,306 from the comparative period. The impairment consisted of an impairment of leasehold improvements of $1,232,433 and office furniture of $19,331 in connection with a lease which expired in August 2022. The Company did not renew the lease as the Company's management decided to shut down its analytical testing facility in Scarborough, Ontario, which operated under MSC group.
- Impairment of intangible assets and goodwill of $3,485,562, an increase of $3,310,659 from the comparative period. A total impairment of $1,027,000 (2021 - $Nil) was recognized in connection with the closing of MSC group's operation in August 2022. The Company also recognized a total impairment of intangible assets and goodwill of $2,458,562 (2021 - $Nil) related to Steep Hill US, primarily due to continued decline in expected revenue, which resulted in the Company's management conclusion that the carrying value of Steep Hill US CGU was higher than the recoverable amount.
- Salaries and wages for the year ended December 31, 2022 was $2,504,609, an increase of $1,921,227 compared to comparative period. The increase is primarily due to salaries and wages in Steep Hill US, which was acquired in January 2022, of approximately $1.6 million (2021 - $Nil).

The increase in the net loss before other income (expense) is offset by:

- Revenue of $3,073,244, an increase of $2,134,671 from comparative period, due to the inclusion of Steep Hill US's revenue of $1,897,769 (2021 - $Nil) as well as increase of $236,902 in revenue generated from MSC.
- Consulting fees for the year ended December 31, 2022 decreased by $578,032, compared to comparative period. The decrease is due to the reduction of a number of consultants for the operations. Additionally, 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 year ended December 31, 2022 (2021 - $748,547). 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 8,500,000. 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 $7,114,120 for the year ended December 31, 2022, an increase of $2,569,864 compared to net loss of $4,544,256 for the year ended December 31, 2021. The decrease is primarily due increased in operating loss as discussed above, offset by the following:

- Gain on disposals of property, plant and equipment of $91,754 (2021 - $Nil), which was generated from the sale of the Company's laboratory testing equipment.
- Gain on deconsolidation of subsidiaries of $211,100 (2021 - $Nil), which was recognized as a result of deconsolidation of Canbud group and MSC group.
- Other income of $209,330 (2021 - $Nil) which was generated from an arrangement between Steep Hill US with a vendor whereby the Company receives fees based on leads and customers introduction that resulted in sales for the vendor.

For the three months ended December 31, 2022

The Company generated operating revenues of $118,802 (2021 - $411,839) during the three months ended December 31, 2022, which were entirely generated from Steep Hill US, a newly acquired wholly owned subsidiary in January 2022. In the comparative period, the revenues were generated from lab testing services in MSC, which was shut down in the third quarter of 2022 and as a result, there was no revenue generated from MSC in the fourth quarter of 2022.

The Company recorded a loss before other income (expenses) of $5,777,083 during the three months ended December 31, 2022 due to:

- Exclusion of the net loss before other income (expenses) of MSC group of $2,495,407 which was previously presented as loss from discontinued operations in the third quarter of 2022. MSC group began the bankruptcy proceeding in the fourth quarter of 2022 and consequently, the Company no longer had any control over MSC group effective October 21, 2022.
- Impairment of intangible assets and goodwill related to Steep Hill US of $2,458,562, as a result of the Company's management assessment that the carrying value of the intangible assets and goodwill acquired in January 2022 were higher than the recoverable amount due to the continued decline in forecasted revenue.

The Company recorded a net loss of $1,039,787, a decrease of $729,683 from the comparative period. The decrease is due to the gain on deconsolidation of MSC group of $264,694 (2021 - $Nil) and other income of $209,330 (2021 - $Nil) which were recognized in the three months ended December 31, 2022.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2022, the Company had a deficit of $14,053,453 (2021 - $6,931,866). For the year ended December 31, 2022, the Company's net loss was $7,114,120 (2021- $4,544,256), negative cash flows from operating activities for the year ended December 31, 2022 were $2,283,315 (2021 - $1,569,826) and working capital of $422,610 (2021 –$1,631,868) as of December 31, 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.

Year ended December 31, 2022

Cash used in operating activities was $1,817,216 during the year ended December 31, 2022, an increase of $247,388 from the comparative period. The increase is due to the increase net loss as well as in non-cash working capital items of $278,950, primarily related to the accounts payable and accrued liabilities, compared to the comparative period.

Cash generated in investing activities was $1,475,415, an increase of $1,812,379 from comparative period. The increase is primarily due to a total of $757,846 (2021 $496,590) of cash acquired in connection with the acquisition during the year and $750,000 ($Nil) of proceeds received from disposals of property, plant and equipment.

Cash used in financing activities was $253,845, an increase of $4,298,492 from comparative period. During the year ended December 31, 2021, the Company closed 2 tranches of non-brokered private placements with an aggregate net proceed of $4,526,449.

Three months ended December 31, 2022

Cash generated in operating activities was $79,935 during the three months ended December 31, 2022, an increase of $484,123 from the comparative period of cash used in operating activities of $404,188. The increase is primarily due to the increase operating loss in the fourth quarter compared to the comparative period.

Cash generated in investing activities was $717,569, an increase of $669,101 from comparative period of $48,468. The increase is primarily due to $750,000 of proceeds received from the sale of equipment in the fourth quarter of 2022.

Cash used in financing activities was $149,218, a decrease of $112,167 from comparative period of $261,385. The decrease is primarily due to reduction of lease payments as the lease of MSC's office/lab facility expired and was not renewed in the third quarter of 2022.

CAPITAL MANAGEMENT

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

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

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

Compensation awarded to key management personnel

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

For the years ended December 31,		**2022**		2021
Salaries, benefits and consulting fees	**$**	365,699	$	360,500
Director fees		57,000		10,000
Share-based compensation		30,366		209,502
	$	**453,065**	$	**580,002**

As of December 31, 2022, the Company had $12,000 (2021 - $24,000) 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 year ended December 31, 2022, the Company incurred rental fees of $16,350 (2021 - $Nil) and consulting fees of $59,075 (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 December 31, 2022, $46,246 (2021 - $Nil) was due to SGI.

During the year ended December 31, 2022, the Company incurred consulting fees of $63,994 (2021 - $Nil) from Eco Generation Home Services Inc. ("EGHS"). EGHS is a company in which Ian Morton has a 100% ownership interest. As of December 31, 2022, $1,526 (2021 - $Nil) was due to EGHS.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the 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 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 wiling seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts. See Note 4 – Business Acquisition.

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, investment properties 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, discount rate, 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.

Loss of control of subsidiary
On October 21, 2022, the Company's wholly owned subsidiary, Molecular Science Corp., and its indirect wholly owned subsidiary, Steep Hill Canada Inc. (formerly Molecular Science Labs Corp.), (collectively, the "MSC group"), appointed a Trustee and filed for bankruptcy proceedings ("OSBC filings") with Office of Superintendent of Bankruptcy Canada ("OSBC"). Management applied judgement in assessing whether this event represents a loss of control of MSC group. As a result of OSBC filings, the appointed Trustee became responsible for the business and financial affairs of MSC group. Management concluded that the Company ceased to have the power to direct the relevant activity of MSC group because substantive rights were granted to Trustee through section 49 of the Bankruptcy and Insolvency Act. As a result, the Company accounted for a loss in control and MSC group was deconsolidated on October 21, 2022 (Note 19).

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.

Accounting standards issued but not yet effective
Certain new accounting standards and interpretations have been published that are not mandatory for the current period and have not been early adopted as follows. The Company is reviewing the new standards but does not expect their future adoption to have a material impact on the Company in the current or future reporting periods.

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 and after 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 transactions 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.

SUBSEQUENT EVENTS
In March and April 2022, the Company, through Steep Hill, Inc., entered into settlement and release agreements with various licensees to terminate the license agreements in effect and settled for a combined termination fees of $2,471,764 (US$1,824,988). In addition, the Company also entered into a trademark purchase agreement with its former licensees to sell "Steep Hill" trademarks for $20,316 (US$15,000).

SHARE CAPITAL

As at December 31, 2022, share capital consisted of:

- 242,844,610 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 2.85 years; and
- 44,630,491 outstanding warrants with exercise price ranging from $0.22 to $0.30 and weighted average remaining contractual life of 0.28 years.

As at May 1, 2023, share capital consisted of:

- 242,844,610 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.

Growth Risks

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

Risks associated with acquisitions

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

Regulatory Risk

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

Operational Risks

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

Access to Capital Market Risk

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

Liquidity Risk

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

Foreign Exchange Risk

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

Interest Rate Risk

Interest rate risk is the potential loss from investments in financial instrument due to changes in market interest rates. As at December 31, 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 LIABLITIES

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 $247,178 (US$182,500) (“settlement amount”) and grant a total of 1,500,000 options (issued), 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 options were issued, as part of the 9,000,000 options granted on May 2022 (Note 16). The settlement amount was included in the accounts payable and accrued liabilities assumed on acquisition of Steep Hill US (Note 4). During the year ended December 31, 2022, the Company paid $206,546 (US$152,500) (2021 - $Nil) and as of December 31, 2022, a total of $40,632 (US$30,000) (2021 - $Nil) is included in the accounts payable and accrued liabilities.

In January 2022, a Steep Hill US’s former officer (the “former officer”) filed a complaint seeking indemnification of legal fees and costs incurred of approximately US$900,000 in connection with a previously filed complaint (“initial complaint”) brought by the former officer. The stipulation and order of dismissal of the initial complaint was granted by the Court of Chancery of the State of Delaware in April 2022. The Company believes the complaint is without merit and intends to vigorously defend against it.

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.