Steep Hill

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023

## 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 nine months ended September 30, 2023. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2023. 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 November 28, 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. 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. During the first quarter of 2023, the Company agreed to mutual termination of all licensing agreements in the USA and subsequently, terminated all staff and consulting agreements in the USA. As a result, the Company has no operations in Canada and USA and is currently evaluating its strategic alternatives.

## CORPORATE HIGHLIGHTS AND UP TO THE DATE HEREOF:

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.

On April 4, 2023, Steep Hill announced that it had negotiated similar settlement and release agreements with the other licensees. As a result, Steep Hill US ceased current operations in the US. Moreover, management negotiated settlement and release agreements with the other licensees towards ensuring Steep Hill US concluded its contractual obligations with these parties. Steep Hill US also laid off the remainder of the US-based employees and consultants.

As a consequence, the Company and Steep Hill US has no operations or staff in the US. Management is continuing efforts to monetize any and all assets such as licensed trademark, which will enable Steep Hill US to meet its obligations and is currently in the midst of restructuring its business, meeting its current financial obligations and is exploring strategic alternatives.

A claim was 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. In June 2023, through an arbitration, the Company and Mr. Burke settled for $51,400.

In September 2023, the Company and a former officer of Steep Hill, Inc. ("Steep Hill US"), Jmîchaeĺe Kelle, have reached a settlement of $443,964 (US$330,000) to resolve all litigation and releases between parties. The settlement and release terminated the indemnification action brought by Mr. Keller in the Court of Chancery of the State of Delaware in January 2022.

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.

## 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 September 30, 2023 $** | **Quarter ended June 30, 2023 $** | **Quarter ended March 31, 2023 $** | **Quarter ended December 31, 2022 $** |
|---|---|---|---|---|
| Loss before other income (expenses) | (32,358) | (279,928) | (169,672) | (5,777,083) |
| Other income (expenses) | (36,026) | 43,980 | 26,590 | 625,606 |
| Income (Loss) from discontinued operation | (829,582) | (116,415) | 2,156,184 | 2,495,407 |
| Net income (loss) | (897,966) | (351,695) | 2,013,102 | (1,039,787) |
| Total comprehensive income (loss) | (860,511) | (378,335) | 2,013,102 | (2,822,427) |
| Net loss per share* | (0.00) | (0.00) | (0.00) | (0.01) |
| | **Quarter ended September 30, 2022 $** | **Quarter ended June 30, 2022 $** | **Quarter ended March 31, 2022 $** | **Quarter ended December 31, 2021 $** |
| Loss before other income (expenses) | (76,358) | (1,042,896) | (743,639) | (1,232,518) |
| Other income | (96,699) | 5,891 | (144,041) | (536,654) |
| Income (Loss) from discontinued operation | (2,495,407) | - | - | - |
| Net loss | (2,592,106) | (1,039,787) | (887,680) | (1,769,470) |
| Total comprehensive income (loss) | (2,489,543) | (985,917) | (884,269) | (1,769,470) |
| Net loss per share* | (0.01) | (0.00) | (0.01) | (0.01) |

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

**SUMMARY OF THIRD QUARTER 2023 RESULTS**

**Results of Operation**

*For the three months ended September 30, 2023*

During the three months ended September 30, 2023, the Company generated no revenues as the Company no longer has any commercial operation since it terminated all the licensing agreements in the Steep Hill, Inc. in March 2023 and subsequently, shut down its operation. The results of operation of Steep Hill, Inc. has been presented as discontinued operation.

The Company recorded net loss before other income (expense) of $32,358 for the three months ended September 30, 2023, a decrease of $268,274, compared to $300,632 in the comparative period. The decrease in net loss before other income (expense) was primarily due to:

- Consulting fees decreased by $118,452 and salaries and wages decreased by $129,132 due to the allocation of services provided to discontinued operation in the first three quarters;
- Office and general expenses decreased by $20,270 primarily driven by the decrease in insurance premium. For the three months ended September 30, 2023, the Company incurred $17,033, a decrease of $20,299, compared to $37,332 in the comparative period.

The Company recorded a net loss from continuing operation of $60,384 for the three months ended September 30, 2023, a decrease of $252,595 compared to net loss of $320,979 for the three months ended September 30, 2022. The decrease is primarily due decrease in operating loss as discussed above, offset by the increase of $84,457 in foreign exchange loss during the three months ended September 30, 2023.

*For the nine months ended September 30, 2023*

During the nine months ended September 30, 2023, the Company no revenues. All revenues generated from Steep Hill, Inc. up to Company shutting down its operation have been presented within the income (loss) from discontinued operation – Steep Hill US.

The Company recorded net loss before other income (expense) of $481,958 for the nine months ended September 30, 2023, a decrease of $595,470, compared to $1,077,428 in the comparative period. The decrease in net loss before other income (expense) was primarily derived from:

- Decrease of $161,406 in consulting fees and decrease of $76,290 in salaries and wages as the Company has reduced its operating activities and retained only essential services to preserve cash;
- Decrease of $48,316 in office and general expenses primarily related to the reduction in insurance premium. The Company incurred $59,917 in the nine months ended September 30, 2023, a reduction of $65,239 compared to $125,156 in the comparative period;
- Share-based compensation of $Nil, a decrease of $127,114 from comparative period. During the comparative period, the Company granted 9,000,000 options to various consultants, officers and directors. There were no options granted during the nine months ended September 30, 2023.

The Company recorded a net loss from continuing operation of $447,414 for the nine months ended September 30, 2023, a decrease of $764,541 compared to net loss of $1,211,955 for the nine months ended March 31, 2022. The decrease is primarily due the decrease in operating loss as discussed above. In addition, the Company incurred $116,164 of acquisitions-related costs in connection with the $2,870,000 common shares issued as advisory services related to the acquisition of Steep Hill, Inc. as well as $50,367 loss of deconsolidation of subsidiaries in the comparative period.

**Discontinued Operations**
Steep Hill US

In March 2023, the Company, through Steep Hill, Inc., entered into settlement and release agreements with various licensees to terminate the license agreements (the "settlement agreements") in effect and settled for a combined termination fees of $2,459,080 (US$1,824,988). Following the settlement agreements, the Company determined that Steep Hill, Inc.'s operation was no longer commercially sustainable and decided to cease its US operation.

Accordingly, the operating results and operating cash flows for the previously reported subsidiary are presented as discontinued operations separate from the Company's continuing operations. Prior period information has been reclassified to present Steep Hill, Inc. as a discontinued operation.

The assets and liabilities of the discontinued operation are as follows:

| **As at** | | **September 30, 2023** |
|---|---|---|
| **Assets** | | |
| Cash | $ | 277,326 |
| Prepaids | | 1,192 |
| Accounts receivable | | 5,864 |
| **Total assets of discontinued operation** | **$** | **284,382** |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | $ | 1,615,465 |
| **Total liabilities of discontinued operation** | **$** | **1,615,465** |

Net income (loss) from discontinued operation:

| | For the nine months ended September 30, | | | |
|---|---|---|---|---|
| | | **2023** | | **2022** |
| **Revenue** | $ | 353,581 | $ | 1,778,967 |
| **Expenses** | | | | |
| Amortization of intangible assets | | - | | 206,289 |
| Allowance for expected credit recovery | | (6,070) | | 4,935 |
| Office and general expenses | | 77,316 | | 314,538 |
| Professional fees | | 108,023 | | 324,792 |
| Consulting, salaries and wages | | 567,857 | | 1,173,184 |
| Loss before other income | | (393,545) | | (244,771) |
| Other Income (expense) | | | | |
| Other Income (i) | | 2,047,699 | | - |
| Litigation settlement (ii) | | (443,967) | | - |
| **Income (loss) from discontinued operation** | | 1,210,187 | | (244,771) |
| **Other comprehensive income** | | | | |
| Foreign currency translation adjustment | | 11,483 | | 159,844 |
| **Income (loss) and comprehensive income (loss) from discontinuing operation** | **$** | **1,221,670** | **$** | **(84,927)** |

(i) In March 2023, the Company received total proceeds of $2,459,080 (US$1,824,988) in connection with the settlement agreements from the licensees. The carrying value of intangibles (customer relationships) of $387,699 has been deducted from the total proceeds and the Company recognized $2,071,381 as other income in income (loss) from discontinued operation for the nine months ended September 30, 2023.

(ii) 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. In September 2023, the Company and the former officer settled on the indemnification of legal fees and costs of $443,967 (US$330,000).

Net cashflows from discontinued operation:

| | For the nine months ended September 30, 2023 | | 2022 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from (used in) operating activities - discontinuing operation | $ | 2,128,331 | $ (367,145) |

MSC Group

In August 2022, the Company determined that due to the significant price discounting pressure stemming for the excess capacity felt by licensed producers (growers) and increased operating costs, the Company decided to shut down its analytical testing facility in Scarborough, Ontario, which was operating under Molecular Science Corp.

Accordingly, the operating results and operating cash flows for the previously reported subsidiary are presented as discontinued operations separate from the Company's continuing operations. Prior period information has been reclassified to present Molecular Science Corp., as a discontinued operation.

Net loss from discontinued operation:

| | | For the nine months ended September 30, 2022 |
|---|---|---|
| **Revenue** | $ | 1,175,475 |
| **Expenses** | | |
| Amortization of property, plant and equipment | | 344,720 |
| Amortization of intangible assets | | 135,269 |
| Business development | | 7,300 |
| Consulting fees | | 98,268 |
| Laboratory expenses | | 564,866 |
| Office and general expenses | | 127,307 |
| Professional fees | | 13,947 |
| Salaries and wages | | 731,263 |
| Unrealized loss on investments | | - |
| Finance expense | | 39,245 |
| Foreign exchange gain | | 660 |
| Gain on termination of lease | | (11,533) |
| Impairment of property, plant and equipment | | 1,160,010 |
| Impairment of intangible assets | | 1,027,000 |
| **Net loss from discontinuing operation** | **$** | **(3,062,847)** |

Net cashflows from discontinued operation:

| | | For the nine months ended September 30, 2022 |
|---|---|---|
| **Operating activities** | | |
| Cash used in operating activities - discontinuing operation | $ | (85,467) |
| **Financing activities:** | | |
| Cash used in financing activities - discontinuing operation | $ | (93,470) |

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2023, the Company had a deficit of $12,110,872 (2022 - $14,053,453). For the nine months ended September 30, 2023, the Company's net loss from continuing operation was $447,414 (2022 - $1,211,955), negative cash flows from operating activities – continuing operation for the nine months ended September 30, 2023 were $845,777 (2022 - $1,317,905) and working capital of $1,656,475 (2022 –$422,610) as of September 30, 2023. The Company's ability to continue as a going concern is dependent upon its existing working capital and obtaining the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. The Company's working capital may not meet corporate, development, administrative and property obligations for the coming year. As a result, the Company may require additional financing and, while the Company has been successful in raising equity financing through the issuances of common shares in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms. As such, there remains significant doubt as to the Company's ability to continue as a going concern.

*Three months ended September 30, 2023 (continuing operation)*

Cash used in operating activities was $253,812 during the three months ended September 30, 2023, a decrease of $86,787 from the comparative period. The decrease is due to the decrease in operating expenses and non-cash working capital items.

Cash generated from (used in) investing activities was $Nil during the three months ended September 30, 2023 and 2022.

Cash used in financing activities was $1,536, an increase of $526 from comparative period. The increase is due to the increase in the office lease compared to comparative period.

*Nine months ended September 30, 2023 (continuing operation)*

Cash used in operating activities was $845,777 during the nine months ended September 30, 2023, a decrease of $472,128 from the comparative period. The decrease is due to decrease of approximately 60% of net loss compared to comparative period.

Cash used in investing activities was $2,656,475 during the three months ended September 30, 2023, an increase of $2,656,475 from comparative period. The increase is primarily due to purchase of one-year term deposits bearing interest between 2.5% to 2.75% per annum of $2,656,475 (2022 - $Nil) with a financial institution in the nine months ended September 30, 2023.

Cash used in financing activities was $9,425, a decrease of $1,732 from comparative period. The decrease is due to the reduction payment of lease liability due the termination of lease in Lakefield, Ontario, effective July 31, 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 in the continued and discontinued operations are as follows:

| For the nine months ended September 30, | | **2023** | | 2022 |
|---|---|---|---|---|
| Salaries, benefits and consulting fees | **$** | 397,956 | $ | 328,736 |
| Director fees | | 30,000 | | 15,000 |
| | **$** | **427,956** | $ | **343,736** |

Included in the salary, benefits and consulting fees was $Nil (2022 - $30,366) of share-based compensation. As of September 30, 2023, the Company had $122,390 (2022 - $58,276) of unpaid consulting fees to key management personnel and directors' fees to directors included in accounts payable and accrued liabilities.

**Related party transactions (continued and discontinued operaons)**
During the nine months ended September 30, 2023, the Company incurred rental fees of $12,000 (2022 - $10,350) and consulting fees of $51,737 (2022 - $21,225) 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 September 30, 2023, $50,370 (2022 - $46,246) was due to SGI.

During the nine months ended September 30, 2023, the Company incurred consulting fees of $16,087 (2022 - $46,283) from Eco Generation Home Services Inc. ("EGHS"). EGHS is a company in which Ian Morton has a 100% ownership interest. As of September 30, 2023, $Nil (2022 - $3,475) 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 of the condensed interim consolidated financial statements for the nine months ended September 30, 2023.

*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.

*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.

*Adoption of New Accounting Pronouncements*
*<u>Amendments to IAS 1 – Presentation of Financial Statements</u>*
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 amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. There were no changes to the Company's current period or comparative period upon adoption.

*<u>Amendments to IAS 12 – Income Taxes</u>*
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. There was no material impact as a result of adopting this amendment.

*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 16 – Leases*
The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15: Revenue to be accounted for as a sale. The amendment is effective for annual period beginning on or after January 1, 2024.

*Amendments to IAS 1 – Covenants*
The amendment that clarifies how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. The amendments are effective for annual periods beginning on or after January 1, 2024.

**SHARE CAPITAL**

As at September 30, 2023, share capital consisted of:

- 242,844,610 issued and outstanding common shares;
- 23,526,000 options outstanding with exercise price ranges from $0.08 to $0.22 and weighted average remaining contractual life of 2.10 years; and
- 3,958,800 outstanding warrants with exercise price of $0.30 and weighted average remaining contractual life of 0.77 years.

As at November 28, 2023, share capital consisted of:

- 242,844,610 issued and outstanding common shares;
- 23,526,000 options outstanding with exercise price ranges from $0.08 to $0.22; and
- 3,958,800 outstanding warrants with exercise price of $0.30.

**RISKS AND RISK MANAGEMENT**

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 and expand its business in the next 24 months 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.

Access to Capital Market Risk

The capital market may not be conducive to raising additional capital in the near future. The Company may require additional financing to fund activities to grow the business in the future. There can be no assurance that appropriate financing will be available on terms acceptable to the Company, if at all.

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 September 30, 2023, the Company is not exposed to interest rate risk.

**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.*