



STEEP HILL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2024

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 for the six months ended June 30, 2024. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the for the six months ended June 30, 2024. Those financial statements are presented in Canadian dollars and prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise indicated, all dollar amounts refer to Canadian funds. Information herein includes any significant developments up to August 8, 2024, 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, including analytical testing services. The company's focus was to ensure its products and services meet the highest standards of quality and safety and adhered to strict compliance standards. As a result of industry specific challenges, including significant pricing pressure, cost escalations post-COVID and downturn in capital markets for small-cap companies, the operations in Canada and USA were wound-down starting in the last quarter of 2022.

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 consultants.

The Company has no operations in Canada and US. There were no significant transactions during the six months ended June 30, 2024 as the Company is evaluating various strategic alternatives that will benefit its stakeholders.

Annual Information

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

	Year ended December 31, 2023 \$	Year ended December 31, 2022 \$	Year ended December 31, 2021 \$
Current assets	2,741,562	2,573,678	2,910,708
Total assets	2,756,932	3,015,934	7,433,994
Current liabilities	1,105,773	2,151,068	1,278,840
Total liabilities	1,105,773	2,173,595	1,725,126
Loss from continuing operations before other income (expenses)	(529,398)	(4,462,328)	(3,846,901)
Other income (expenses)	66,305	183,876	(697,355)
Net loss from continuing operations before income taxes	(463,093)	(4,278,452)	(4,544,256)
Net loss from continuing operations	(439,437)	(4,302,108)	(4,544,256)
Income (loss) from discontinued operations	1,232,735	(2,812,012)	-
Net income (loss) for the year	793,298	(7,114,120)	(4,544,256)
Net income (loss) and comprehensive income (loss)	808,820	(7,182,156)	(4,544,256)
Basic and diluted net income (loss) per share			
- Continuing operations	(0.03)	(0.27)	0.03
- Discontinued operations	0.08	(0.18)	-

SELECTED QUARTERLY FINANCIAL INFORMATION

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

	Quarter ended June 30, 2024 \$	Quarter ended March 31, 2024 \$	Quarter ended December 31, 2023 \$	Quarter ended September 30, 2023 \$
Loss from continuing operations before other income (expenses)	(72,693)	(111,400)	(47,440)	(32,358)
Other income (expenses)	(4,452)	(3,043)	31,761	(36,026)
Income (loss) from discontinued operations	(29,675)	(42,554)	22,548	(829,582)
Net income (loss)	(106,820)	(156,997)	29,857	(897,966)
Net income (loss) and comprehensive income (loss)	(107,576)	(161,997)	34,564	(860,511)
Net income (loss) per share*	(0.01)	(0.00)	(0.00)	(0.05)
	Quarter ended June 30, 2023 \$	Quarter ended March 31, 2023 \$	Quarter ended December 31, 2022 \$	Quarter ended September 30, 2022 \$
Loss from continuing operations before other income (expenses)	(279,928)	(169,672)	(2,576,463)	(76,358)
Other income (expenses)	43,980	26,590	418,725	(96,699)
Income (loss) from discontinued operations	(116,415)	2,156,184	(413,153)	(2,419,049)
Net loss	(351,695)	2,013,102	(2,594,547)	(2,592,106)
Net loss and comprehensive loss	(378,335)	2,013,102	(2,822,427)	(2,489,543)
Net loss per share*	(0.02)	0.12	(0.18)	(0.15)

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

SUMMARY OF FIRST QUARTER 2024 RESULTS

Results of Operations

For the three months ended June 30, 2024

During the for the three months ended June 30, 2024, the Company generated no revenues from its continuing operations. All revenues generated from Steep Hill, Inc. until the date of closure of the operation have been presented within the income (loss) from discontinued operations – Steep Hill US.

The Company recorded net loss before other income (expense) of \$72,693 for the for the three months ended June 30, 2024 , a decrease of \$207,235, compared to \$279,928 in the comparative period. The decrease in net loss before other income (expense) was primarily derived from:

- Decrease of \$118,854 in consulting fees and \$58,863 in salaries and wages due to fewer consultants with reduced fees compared to the comparative period. The Company has minimal operations subsequent to shutting down its operation in US in the first quarter of 2023.
- Decrease of \$32,510 in professional fees compared to comparative period due to fewer transactions requiring external counsels compared to the six months ended June 30, 2023.

The Company recorded a net loss from continuing operations of \$77,145 for the for the three months ended June 30, 2024 , a decrease of \$158,803 compared to net loss of \$235,948 for the for the three months ended June 30, 2023. The decrease was primarily due the increase of foreign exchange loss of \$44,284 in the three months ended June 30, 2024 in connection with the foreign exchange on the intercompany loan.

For the six months ended June 30, 2024

During the for the six months ended June 30, 2024, the Company generated no revenues from its continuing operations. All revenues generated from Steep Hill, Inc. until the date of closure of the operation have been presented within the income (loss) from discontinued operations – Steep Hill US.

The Company recorded net loss before other income (expense) of \$191,588 for the for the six months ended June 30, 2024 , a decrease of \$187,442, compared to \$379,030 in the comparative period. The decrease in net loss before other income (expense) was primarily derived from:

- Decrease of \$103,061 in consulting fees and \$115,712 in salaries and wages due to fewer consultants with reduced fees compared to the comparative period. The Company has minimal operations subsequent to shutting down its operation in US in the first quarter of 2023.
- Decrease of \$33,537 in professional fees compared to comparative period due to fewer transactions requiring external counsels compared to the six months ended June 30, 2023.

The Company recorded a net loss from continuing operations of \$191,588 for the for the six months ended June 30, 2024, a decrease of \$187,442 compared to net loss of \$379,030 for the for the three months ended June 30, 2023. The decrease was primarily due the increase of foreign exchange loss of \$87,559 in the six months ended June 30, 2024 in connection with the foreign exchange on the intercompany loan. The decrease is offset by the increase in interest income of \$8,641 generated from the term deposits from 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 \$2,724,748 (US\$2,014,452). 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.

As the operation has been discontinued through abandonment, the assets and liabilities of the discontinued operations have not been reclassified on the condensed interim consolidated statements of financial position as at June 30, 2024 and December 31, 2023.

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

As at	June 30, 2024	December 31, 2023
Assets		
Cash	\$ 75,070	\$ 58,741
Accounts receivable and other	281	281
Total assets of discontinued operations	\$ 75,351	\$ 59,022
Liabilities		
Accounts payable and accrued liabilities	\$ 803,937	\$ 867,819
Income tax payable	-	19,254
Total liabilities of discontinued operations	\$ 803,937	\$ 887,073

Net (loss) income of the discontinued operations is as follows:

As at	June 30, 2024	December 31, 2023
Assets		
Cash	\$ 75,070	\$ 58,741
Accounts receivable and other	281	281
Total assets of discontinued operations	\$ 75,351	\$ 59,022
Liabilities		
Accounts payable and accrued liabilities	\$ 803,937	\$ 867,819
Income tax payable	-	19,254
Total liabilities of discontinued operations	\$ 803,937	\$ 887,073

- (i) In March 2023, the Company received total proceeds of \$2,724,748 (US\$2,014,452) in connection with the settlement agreements from the licensees, which has been included in other income within net income (loss) from discontinued operations for the three months ended December 31, 2023. Of this balance \$256,614 was previously recognized as a contract liability prior to termination, and subsequently recognized in other income within net income (loss) from discontinued operations for the period, on termination of the licenses. An impairment loss of \$408,142 corresponding with the carrying value of the intangible assets (brand and customer relationships) associated with the licenses terminated has been recognized in impairment of intangible assets and goodwill within net income (loss) from discontinued operations for the year ended December 31, 2023.

Net cashflows from discontinued operations:

	For the six months ended June 30,	
	2024	2023
Operating activities		
Cash generated from operating activities - discontinuing operation	\$ (83,135)	\$ 2,146,732

LIQUIDITY AND CAPITAL RESOURCES

The Company has not yet achieved profitable operations and incurred a net loss from continuing operations of \$191,588 (2023 - \$379,030) during the six months ended June 30, 2024 and the Company has an accumulated deficit of \$10,932,241 (2023 - \$10,668,424). As at June 30, 2024, the Company has a working capital of \$1,374,807 (2023 - \$1,635,789) and cash flows used in operating activities from continuing operations for the six months ended June 30, 2024 was \$390,041 (2023 – cash flow generated in operating activities was \$1,554,767). 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.

For the six months ended June 30, 2024 (continuing operations)

Cash used in operating activities was \$180,207 during the for the six months ended June 30, 2024, a decrease of \$179,875 from the comparative period. The increase is primarily related to reduction in the operating expenses during the period as discussed above.

Cash used in investing activities was \$Nil during the six months ended June 30, 2024, a decrease of \$656,475 from the comparative period. The decrease is primarily due to purchase of one-year term deposits bearing interest between 2.5% to 2.75% per annum of \$656,475 with a financial institution in the comparative period.

Cash used in financing activities was \$5,201, an increase of \$1,256 from comparative period. The increase is primarily due to increase payments related to office lease.

For the six months ended June 30, 2024 (continuing operations)

Cash used in operating activities was \$306,906 during the for the six months ended June 30, 2024, a decrease of \$285,059 from the comparative period. The increase is primarily related to reduction in the operating expenses during the period as discussed above.

Cash used in investing activities was \$Nil during the six months ended June 30, 2024, a decrease of \$2,656,475 from the comparative period. The decrease is primarily due to purchase of one-year term deposits bearing interest between 2.5% to 2.75% per annum of \$2,656,475 with a financial institution in the comparative period.

Cash used in financing activities was \$10,402, an increase of \$2,513 from comparative period. The increase is primarily due to increase payments related to office lease.

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 six months ended June 30,	2024		2023
Salaries, benefits and consulting fees	\$	128,605	\$ 69,778
Director fees		-	12,000
	\$	128,605	\$ 81,778

As of June 30, 2024, the Company had \$28,758 (2023 - \$12,000) of unpaid consulting fees to key management personnel and directors' fees to directors included in accounts payable and accrued liabilities.

During the six months ended June 30, 2024, the Company incurred document storage fees of \$12,000 (2023 - \$6,000) and consulting fees of \$Nil (2023 - \$20,058) from Summerhill Group Inc ("SGI"). SGI is a company in which the Company's Chairman and director, Ian Morton, is the majority shareholder. As of June 30, 2024, \$Nil (2023 - \$Nil) was due to SGI.

During the six months ended June 30, 2024, the Company incurred consulting fees of \$Nil (2023 - \$7,783) from Eco Generation Home Services Inc. ("EGHS"). EGHS is a company in which Ian Morton has a 100% ownership interest. As of June 30, 2024, \$Nil (2023 - \$Nil) was due to EGHS.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

The estimates and underlying assumptions are based on current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Estimated useful lives and amortization of long-lived assets

Depreciation of Property, plant and equipment and intangible assets are dependent upon estimates of useful lives which are determined through the exercise of judgments. The assessment of any impairment of these assets is dependent upon estimates recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised

estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously. The Company applies judgment when determining the CGU in which the non-financial asset(s) belong and in estimating the recoverable amount of the asset or CGU.

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.

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.

Discontinued operations

The Company applies judgment in assessing whether the criterion for discontinued operations is met, specifically whether the operations represent a separate major line of business or geographic area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Accounting standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current year and have not been early adopted. 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 years.

SHARE CAPITAL

As at June 30, 2024, share capital consisted of:

- 16,178,653 issued and outstanding common shares;
- 213,667 options outstanding with exercise price ranges from \$1.20 to \$1.88 and weighted average remaining contractual life of 1.26 years; and
- 263,920 outstanding warrants with exercise price of \$4.50 and weighted average remaining contractual life of 0.02 years.

As at August 8, 2024 , share capital consisted of:

- 16,178,653 issued and outstanding common shares; and
- 213,667 options outstanding with exercise price ranges from \$1.20 to \$1.88 and weighted average remaining contractual life of 1.18 years; and

RISKS AND RISK MANAGEMENT

Business Risks

The Company has very little history upon which to evaluate its performance and prospects. Currently the Company has no revenue from continuing operations and currently reevaluating our strategic options. The Company's continuing operations are subject to all the business risks associated with new enterprises. 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.

Risks associated with acquisitions

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

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

As the Company operated in the United States during the year, some of the company's assets, liabilities, and transactions are denominated in United States funds. Fluctuation in the exchange rates between the U.S. dollar and the Canadian dollar could have a material effect on the Company's business, financial condition, and results of operations.

Interest Rate Risk

Interest rate risk is the potential loss from investments in financial instruments due to changes in market interest rates. As at June 30, 2024 , the Company is not exposed to interest rate risk as it only carries term deposits with a fixed interest rate.

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.