# HEMPFUSION WELLNESS INC.

# Management's Discussion and Analysis (MD&A)

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021**
**AND**
**JUNE 30, 2020**

**(Expressed in United States Dollars)**

## AUGUST 13, 2021

# HempFusion Wellness Inc.
# Management's Discussion & Analysis

## Introduction

References in this document to the "**Company**", "**HempFusion**", "we", "us" or "our" are intended to mean HempFusion Wellness, Inc.

The following management's discussion and analysis ("**MD&A**") of performance, financial condition and future prospects should be read in conjunction with our unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2021 and 2020, as well as our audited financial statements and notes thereto for the years ended December 31, 2020 and 2019. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and interpretations of the IFRS Interpretations Committee ("**IFRIC**"). All dollar amounts in this MD&A are expressed in United States dollars ("$") unless otherwise specified. This MD&A is provided as of August 13, 2021.

For the purposes of preparing this MD&A, management, in conjunction with the board of directors of the Company (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 (the "**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 has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 - *Continuous Disclosure Obligations* ("**NI 51-102**") of the Canadian Securities Administrators. Additional information regarding the Company is available on our websites, www.hempfusion.com and with respect to the Company's probiotic products, www.probulin.com or through the Company's SEDAR profile available at www.sedar.com.

## Cautionary Statement on Forward Looking Statements

Certain statements contained in this MD&A may constitute forward-looking statements. These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "propose", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as "indicate", "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its consolidated financial condition, results of operations, business strategy and financial needs.

These forward-looking statements include, among other things, statements relating to:

- the Company's expectations regarding its revenue, expenses and operations;
- industry trends and overall market growth;
- the development of the Company's products;
- the Company's growth strategies;
- expectations relating to director and executive officer compensation levels;
- the Company's anticipated cash needs and its needs for additional financing;
- the Company's intention to grow the business and its operations;
- expectations with respect to future production costs and capacity;
- the Company's competitive position and the regulatory environment in which the Company operates;
- the Company's operations in the United States, the characterization and consequences of those operations under federal United States law and applicable State law, and the framework for the enforcement of applicable laws in the United States;
- the Company's expected business objectives for the next 12 months;
- the Company's ability to obtain additional funds through the sale of equity or debt commitments;
- the medical benefits, safety, efficacy, dosing and social acceptance of Cannabidiol ("**CBD**");
- the effect of the novel coronavirus disease 2019 ("**COVID-19**") outbreak on the ability of the Company to carry on business; and
- beliefs and intentions regarding the ownership of material trademarks and domain names used in connection with the design, production, marketing, distribution and sale of our products.

Although the Company believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that forward-looking statements will prove to be accurate, and no such assurance is hereby offered, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise, except where required by applicable securities laws.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. In making the forward looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to: (i) obtaining the necessary regulatory approvals; (ii) that regulatory requirements will be maintained; (iii) general business and economic conditions; (iv) the Company's ability to successfully execute its plans and intentions; (v) the availability of financing on reasonable terms; (vi) the Company's ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Company's competitors; and (ix) that the Company's current good relationships with its service providers and other third parties will be maintained.

Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties and assumptions, investors should not place undue reliance on these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "Risk Factors", which include:

- the Company is a development stage company with a short operating history, a history of losses and the Company cannot assure profitability;
- the Company's interpretation of and changes to federal and state laws pertaining to Hemp and Hemp products, including the 2018 Farm Bill;
- the Company is subject to new dietary ingredient objection by the United States Food and Drug Administration (the "**FDA**") and interpretation of the Prior Drug Exclusion;
- the Company's products are deemed as controlled substances due to delta-9 THC levels exceeding 0.3%;
- Hemp plant specific agricultural risks;
- the Company has undergone numerous corporate restructurings containing provisions that could disadvantage the Company;
- uncertainty about the Company's ability to continue as a going concern;
- the Company's actual financial position and results of operations may differ materially from the expectations of management;
- the Company expects to incur significant ongoing costs and obligations relating to its investment in infrastructure, growth, regulatory compliance and operations;
- there are factors which may prevent the Company from the realization of growth targets;
- the Company is subject to changes in Canadian laws, regulations and guidelines, which could adversely affect the Company's future business, financial condition and results of operations;
- the Company is subject to changes in federal laws, state and local of the United States and to changes in federal, state and local enforcement activities, which could adversely affect the Company's future business, financial condition and results of operations;
- there is no assurance that the Company will turn a profit or generate revenue growth;
- the Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business;
- the Company may be unable to adequately protect its proprietary and intellectual property rights;
- the Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights;
- the Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations and financial condition;
- the Company faces competition from other companies where it will conduct business that may have a higher capitalization, more experienced management or may be more mature as a business;

- if the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the Hemp market;
- the Company's directors, officers, employees and its investors may face challenges entering the United States;
- there is no assurance that the Company will obtain and retain any relevant licenses;
- failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the Company's business strategy, may result in the Company's inability to realize any benefit from such acquisition;
- the size of the Company's target market is difficult to quantify, and investors will be reliant on their own estimates on the accuracy of market data;
- the Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition;
- the Company currently has insurance coverage; however, because the Company operates within the hemp industry, there may be additional difficulties and complexities associated with such insurance coverage;
- the Company will continue to sell securities for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders;
- the Company and its suppliers are reliant on key inputs, such as utilities, and any interruption of these services, or failure for these services to keep pace with the Company's expected growth, could have a material adverse effect on the Company's finances and operation results;
- the Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company;
- the Company will be reliant on information technology systems and may be subject to damaging cyberattacks;
- the Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage, and may face risks related to breaches of applicable privacy laws;
- the Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest;
- in certain circumstances, the Company's reputation could be damaged;
- the Company may be subject to product recalls for product defects self-imposed or imposed by regulators;
- the market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control;
- the Company is subject to uncertainty regarding Canadian and U.S. legal and regulatory status and changes;
- the Company does not anticipate paying cash dividends;
- the Company and holders of Common Shares may be subject to certain risks as a result of United States tax classification of the Company;
- future sales of Common Shares by existing shareholders could reduce the market price of the Company's shares;

- no guarantee on the use of available funds by the Company;
- prospective retailers may delay or cancel planned or future launches of the Company's products due to legal or regulatory issues raised by FDA or other regulatory entities regarding Hemp derived cannabinoids like CBD;
- the potential for future restrictions or licensing requirements related to Hemp farming in the U.S. or changes in importation laws for imported Hemp;
- the impact of COVID-19 on the Company is unknown at this time and the financial consequences of this situation cause uncertainty as to the future and its effects on the economy and the Company;
- FDA regulations, enforcement, and intervention in the operations of CBD operating companies and selling products across U.S. state lines, including increased involvement by the FDA regarding marketing CBD products;
- shareholders could be subject to future dilution as a result of financings;
- the Company could experience significant fluctuations in quarterly results, which could fall below the expectation of analysts;
- changes to accounting standards may be implemented; and
- the Company is subject to changes to federal, state, provincial, municipal and local laws.

These factors should not be considered exhaustive. If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements. Information contained in forward-looking statements in this MD&A is provided as of the date of this MD&A, and we disclaim any obligation to update any forward-looking statements, whether as a result of new information or future events or results, except to the extent required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward-looking statements or the information contained in those statements.

**All of the forward-looking statements contained in this MD&A are expressly qualified by the foregoing cautionary statements.**

Except as may be expressly required by applicable law, the Company does not undertake any obligation to update publicly or revise any such forward looking statements, whether as a result of new information, future events or otherwise.

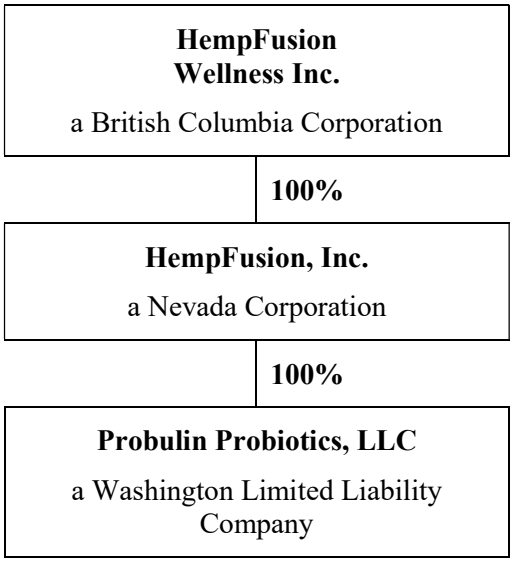
## Company Overview

The Company was incorporated under the *Business Corporations Act* (British Columbia) on July 18, 2019. On January 1, 2020, the Company effected a share exchange whereby HempFusion, Inc. ("**HempFusion USA**") became a wholly-owned subsidiary of the Company. On July 31 2019, HempFusion USA completed the acquisition of Probulin Probiotics, LLC ("**Probulin**") and, as result, Probulin became a wholly-owned subsidiary of HempFusion USA.

The Company's registered office is located at Suite 1500, 1055 West Georgia Street, P.O. Box 11117, Vancouver, British Columbia, Canada, V6E 4N7. HempFusion USA has a registered address located at 1550 Larimer Street #224 Denver, CO 80202, United States.

The Company completed its initial public offering (the "**IPO**") on January 6, 2021 and its Common Shares, common share purchase warrants issued in 2019 (the "**2019 Warrants**") and IPO Warrants (as defined below) commenced trading on the Toronto Stock Exchange (the "**TSX**") under the trading symbols "CBD", "CBD.WT.U" and "CBD.WT.V", respectively. The Company is a reporting issuer in all Canadian provinces, except Quebec.

As at the date of the MD&A, the Company has two wholly-owned subsidiaries, being HempFusion USA and Probulin. The corporate structure of the Company is outlined in the diagram below and is current as at the date of filing of this MD&A.




**Subsidiaries**

*HempFusion, Inc.*

The Company owns 100% of the issued and outstanding shares of common stock of HempFusion USA ("**HempFusion USA Shares**"). HempFusion USA was incorporated under Chapter 78 of the Nevada Revised Statutes (United States) in the State of Nevada on October 13, 2015 under the name MetaCan, Inc. ("**MetaCan**"). On May 28, 2019, MetaCan changed its name to "HempFusion, Inc." and restated its authorized capital to one billion shares of common stock with a par value of $0.0001 per HempFusion USA Share. The registered address of HempFusion USA is 1550 Larimer Street #224 Denver, CO 80202, United States.

*Probulin Probiotics LLC*

HempFusion USA owns 100% of the issued and outstanding common stock of Probulin. Probulin was formed on May 30, 2019 as "Probulin Acquisition LLC", and changed its name to "Probulin Probiotics LLC" on August 14, 2019, in connection with the acquisition of the Probulin Net Assets. The address of Probulin's registered agent for service is Corporation Service Company, MC-CSC1 300 Deschutes Way SW, Suite 208, Tumwater, WA 98501, United States.

# Corporate Highlights

### Initial Public Offering and TSX Listing

On January 6, 2021, the Company completed its IPO of 7,000,000 Common Shares at the price of $1.00 per Common Share and 10,000,000 units of the Company (the "**IPO Units**") at the issue price of $1.00 per IPO Unit for total gross proceeds of $17,000,000. The IPO was completed through a syndicate of agents led by Canaccord Genuity Corp., as sole bookrunner, and including Haywood Securities Inc. and PI Financial Corp. Each IPO Unit is comprised of one Common Share and one-half of one Common Share warrant (each whole warrant being an, "**IPO Warrant**"), with each IPO Warrant entitling the holder to purchase one Common Share at a price of $1.20 per Common Share at any time until January 6, 2026. The Common Shares comprising the IPO Units are subject to a contractual hold period and may not be sold, transferred, pledged, hypothecated or otherwise assigned or traded until May 6, 2021. The Common Shares issuable upon exercise of the IPO Warrants are subject to a contractual hold period and may not be sold, transferred, pledged, hypothecated or otherwise assigned or traded until July 6, 2022.

### Cash balance of approximately $12 million.

As at June 30, 2021, the Company had a cash balance of approximately $12 million.

### Major events subsequent to June 30, 2021

### Acquisition of Sagely Enterprises Inc.

On July 6, 2021, the Company completed the acquisition of Sagely Enterprises Inc. ("**Sagely Naturals**") that resulted in Sagely Naturals becoming a wholly-owned subsidiary of the Company.

The acquisition was completed pursuant to the terms of the agreement and plan of merger dated May 24, 2021, as amended, (the "**Merger Agreement**") among the Company, HF Merger Sub 2021, Inc., a wholly-owned Delaware subsidiary of the Company, Sagely Naturals and KBKN Equityholder Representative LLC, in its capacity as representative of the holders of equity interests in Sagely Naturals (the "**Sellers**"), that resulted in Sagely Naturals becoming a wholly-owned subsidiary of the Company, for initial consideration of $25,000,000 (the "**Initial Consideration**"), of which $2,000,000 was paid in cash (subject to adjustment for Sagely Naturals' cash and working capital) and $23,000,000 was satisfied by the issuance of 22,531,348 Common Shares at a deemed issuance price of $1.0208 per Common Share, being the volume weighted average trading price (the "**VWAP**") of the Common Shares on the TSX for the 30 trading days immediately prior to the date of the Merger Agreement. In addition, the Sellers may be entitled to receive an earnout payment of up to $5,000,000 ("**Earnout Payment**") subject to Sagely Naturals achieving certain revenue targets (with a minimum revenue threshold of $6,020,000) within twelve months of the closing date of the acquisition, with 40% of any Earnout Payment to be paid in Common Shares and the balance paid in cash.

Pursuant to the Merger Agreement, the Company also assumed unvested outstanding stock options of Sagely Naturals which are exercisable for up to an aggregate of 279,432 Common Shares, and outstanding restricted shares of Sagely Naturals which resulted in the issuance of an additional 263,179 Common Shares.

All Common Shares issued in connection with the Merger Agreement in respect of the Initial Consideration are subject to contractual resale restrictions to be released over a period of 12 months from the closing date of the acquisition as follows: (i) 33% will be released on November 6, 2021, (ii) 33% will be released on March 6, 2022 and (iii) the remaining balance will be released on July 6, 2022.

**Acquisition of Apothecanna**

On July 30, 2021, the Company completed the acquisition of APCNA Holdings LLC ("**Apothecanna**") (the "**Transaction**"). The Transaction was completed pursuant to the terms of the unit purchase agreement (the "**Purchase Agreement**") dated May 14, 2021 among the Company. Apothecanna, the owners (collectively the "APCNA Sellers") of all of the issued and outstanding limited liability company interests in Apothecanna and Jeff Henretig, as the representative of the APCNA Sellers. Under the Purchase Agreement, the Company has acquired 100% of the interests in Apothecanna for an initial consideration of $15 million (the "**APCNA Initial Consideration**"), of which (i) $13,875,000 was satisfied by the issuance of 11,633,622 Common Shares (subject to U.S. withholding taxes) issued at the deemed value of approximately US$1.19 per CommonShare, being the VWAP of the Common Shares on the TSX for the 30 trading days immediately prior to the date of the Purchase Agreement, and (ii) $1.125 million (943,267 Common Shares) is subject to a holdback to be released on the 18-month anniversary of the closing date of the Transaction , subject to certain post-closing adjustments and indemnification claims, if any. In addition, the Company will pay the APCNA Sellers up to the aggregate amount of $10,000,000 (the "Milestone Payment") in cash, Common Shares or a combination of both (at the election of the Company), subject to Apothecanna achieving certain revenue targets (with a minimum revenue threshold of $6 million) within 12 months of the closing date of the Transaction.

The number of Common Shares to be issued under the Milestone Payment, if any, will be calculated based on a deemed price which is the greater of (i) the VWAP of Common Shares on the TSX for the 30 trading days immediately prior to the 12-month anniversary of the closing date of the Transaction, or (ii) $1.00 per Common Share.

All Common Shares issued in connection with the Purchase Agreement will be subject to contractual resale restrictions to be released over a period of 12 months from the issuance date as follows: (i) 34% will be released on November 30, 2021 (being four months after issuance), (ii) 33% will be released on March 30, 2022 (being eight months after issuance) and (iii) the remaining balance of 33% will be released on July 30, 2022 (being twelve months after issuance).

## OVERVIEW OF BUSINESS

### Overview of Business and Products

HempFusion is a U.S. based health and wellness CBD and probiotics company. The Company has endeavoured to build a foundation of industry-leading regulatory compliance and human safety, and has a diversified brand portfolio including: HempFusion, Probulin Probiotics, Biome Research and HF Labs. The Company sells its wellness products in approximately 4,000 retail locations and online at its websites www.hempfusion.com and www.probulin.com.

Products

The market for CBD products is growing rapidly. According to the Brightfield Group, it is expected that the U.S. Hemp-derived CBD products industry could reach a market size of $16.8 billion by 2025[1]. The Company believes this anticipated growth will reward industry participants able to react quickly to market place changes and be adept at planning for such anticipated future growth. Management of HempFusion believes that focusing on the following pillars of product development will increase the Company's relevance in the current CBD product marketplace and allow HempFusion to secure ownership of future innovation in an effort to be a leader in the global CBD market.

*Main Tenets of the Company's Product Development*

1. All Hemp used in the Company's products is certified organic in order to serve consumers' demand and desire for products that do not contain potentially harmful substances such as Glyphosates.

2. All seed stock is currently derived from heirloom, DNA verified, European Union Commission registered European industrial Hemp that has a history of agricultural use in a variety of products such as textiles and consumer packaged goods (foods and beverages).

3. All extraction is currently being completed using a $CO^2$ extraction process proprietary to the Company's Hemp extract supplier and that the Company refers to as the "Organic Panoramic Hemp Extract". The process has been designed to yield a wider array of constituents from Hemp. The Company believes this process yields an extract closer to the naturally occurring mix of cannabinoids and other important constituents such as omega fatty acids, cannaflavins and terpenes that occur in the Hemp plant.

4. All formulations are created with what the Company refers to as "Whole Food Hemp Complex" which includes cannabinoids, terpenes and omegas (3-6-9).

5. The Company's products are generally formulated by fusing together panoramic Hemp extracts with other nutrients, herbs, botanicals as well as scientifically-studied constituents to help support consumers' needs.

6. The Company never uses isolates, instead using only broad-spectrum, DNA-verified Hemp; truly broad-spectrum CBD designed to deliver CBD along with a wide array of critical compounds.

7. Strive to be an industry leader in respect of regulatory compliance and safety. This was the driving force behind the Company's line of OTC "drug listed" (with NDC numbers) topical products,

[1] Brightfield Group, "Navigating Seismic Shifts" July 2020 U.S. CBD Report.

produced in an effort to better explain the intended application of the products to customers with legally-allowed drug claims.

8. Establish the Company as a trusted supplier of wellness products. For example, all documentation and third-party testing validation information on the Company's products is made available to the public on the Company's website ("Trust and Safety" page) by link or lot code entry, by link for sample testing results if not associated with a specific product, and by on-product label quick response code/smart phone access.

The Company's product development is driven to address why and how people are using products that contain CBD. According to a recent poll from SingleCare[2], 33% of American adults have used CBD once or more, primarily to better cope with issues related to pain relief (64%), anxiety and stress (49%), and sleep or insomnia (42%).

**Current Products - HempFusion**

The following outlines current product offerings, all of which generate revenue for the Company:

| Product | Description | |
|---|---|---|
| **CBD Capsules:**<br>• Sleep CBD<br>• Stress CBD<br>• Energy CBD<br>• 5 mg, 10 mg and 20 mg CBD | The Company's CBD Capsules come in multiple strengths and formulas in an effort to target specific use cases, such as sleep, stress and energy. The Company's specific use case formulation use synergistic ingredients such as Sensoril ashwagandha for stress support, guayusa for smooth energy and gamma aminobutyric acid (GABA) to promote relaxation and sleep. |  |
| **CBD Liquid Hemp Extract** | The Company's CBD Liquid Hemp Extract features "Whole Food Hemp Complex", containing a broad range of terpenes and omegas and are infused with black cumin seed oil. Available in 5mg, 10mg, 20mg, 30mg and 50mg strength options to allow for more customized dosing for those who prefer not to swallow pills. |  |

[2] Singlecare.com/blog/cbd-survey/, April, 20 2020.

| | | |
|---|---|---|
| **Over-the-Counter Topicals**:<br>• Pain Relief Gel<br>• Sports Pain Relief Cream<br>• Eczema Relief Cream<br>• Pain Relief Cream<br>• Acne Relief Cream<br>• Antibiotic Wound Ointment<br>• Pain Relief Balm<br>• Sports Pain Relief Balm | The Company's line of OTC topical products incorporates the panoramic broad-spectrum Hemp Extract CBD into a skin nourishing base designed to harness the benefits of, and the greater diversity of, naturally-occurring cannabinoids and other compounds. |  |
| **CBD Topicals and Creams**:<br>• CBD Anti-Aging Cream<br>• CBD Balm<br>• CBD Cream | The Company's topicals and creams contain broad-spectrum CBD for use on specific body areas. The Company's cooling and mentholated topical cream contains aloe vera, multiple cannabinoids and terpenes and other skin moisturizing and soothing ingredients, and is available in a 30 ml size. The Company's CBD Balm is available in a 1.44 oz size. The Company's CBD Anti-Aging Cream is available in a 30 ml size. |  |

**Products Under Development**

HempFusion is developing new products to meet market demands, none of which yet generate revenue for the Company. As of the date of this MD&A, the Company has the following products in development:

- **Flavored Organic Tinctures.** The Company anticipates launching Citrus Flavored as well as Unflavored organic tinctures in the third quarter of 2021;.

- **Topical Products**. The Company intends to expand its topical products offerings to include targeted OTC products focused on areas related to pain and inflammation with unique delivery methods and applications. The Company anticipates launching these products in the fourth quarter of 2021;

- **CBD Gummies**. The Company has been developing two new CBD gummy products since late 2019 and intends to launch these products in the third quarter of 2021. These gummy products are specifically focused on CBD and immune supporting formulations; and

- **Pet Products**. The Company has commenced the development of its first two pet products, a tincture product and chew product, to expand its brand into the pet market. The Company intends to seek the endorsement and certification of an independent third-party veterinary certification organization in connection with the launch of these products. Initial research and development of these pet products is nearing completion and the Company expects to launch these pet products by the fourth quarter of 2021.

**Current Products – Probulin**

The Company's Probulin products are scientifically formulated, multi-strain products designed for total gut health support. All products are shelf stable, backed by two year real-time stability testing, and ship cold and insulated to avoid degradation due to heat exposure during the shipping process. The Company's Probulin products leverage several trademarked methods and scientifically validated formulations, including TrimSynergy®, ProbuSkin® and the MAKTrek® 3-D Delivery System, in an effort to create a unique product line. The Company's probiotics also use ingredients like seaweed extract, electrolyte minerals, bifidobacteria and prebiotics. Management of the Company believes the Company's probiotic skin line uses the proven benefits of probiotics to improve overall skin health, while leaving skin looking brighter.

The following outlines current product offerings, all of which generate revenue for the Company:

| Product | Description | |
|---|---|---|
| **Probulin Enzymes:**<br>• Daily Digestive Enzymes | Daily Digestive Enzyme is a broad spectrum plant and probiotic based digestive enzyme designed to support overall digestion. Probulin enzymes are designed to support healthy digestion of potentially difficult foods such as dairy, grains, beans, certain vegetables like broccoli and cabbage and more. Offered in 60 and 90 capsule bottles. |  |
| **Probulin Digestive Probiotics:**<br>• Original Formula<br>• Daily Care<br>• Total Care Probiotic<br>• My Little Bugs OG<br>• Women's Health<br>• Women's UT<br>• Colon Support<br>• PPAK<br>• TrimSynergy | Probulin's Digestive Probiotics are specially designed for support and maintenance of digestive health. Each product uses the Company's MAKTrek® 3-D Probiotic delivery system to protect and nourish probiotics. All products are shipped cold and insulated to avoid degradation due to heat exposure during the shipping process, and are shelf stable. Probulin's Probiotics have no GMOs, gluten, wheat, dairy, soy or magnesium stearate. The Digestive Probiotics line contain between 5 and 20 billion cfu per capsule, 10-15 probiotic strains and postbiotics.<br><br>The Company's Women's UT product contains a combination of broad-spectrum digestive support designed specifically to support a women's urinary tract system. The Company's My Little Bugs product is specifically designed for children, with a broad spectrum formulation. |  |

| | | |
|---|---|---|
| | The P-PAK™ and Colon Support products are highly concentrated with bifidobacterial. The Company's TrimSynergy® product contains a combination of clinically-researched herbal extracts for weight management (African Mango Seed Extract) and energy (Ashwagandha).<br><br>The Company's Daily Care, Women's Health and Colon Support products are available in 30 and 60 capsule packages. The Company's Total Care, Women's UT and My Little Bugs products are available in 30 capsule packages. The Company's P-PAK product is available in 10 capsule packages, TrimSynergy product is available in 60 capsule packages and The Daily Formula product is available in 45 and 90 capsule bottles. | |
| **Probulin Probiotic Skin Care:**<br>• Facial Serum<br>• Marula Eye Cream<br>• Day Cream<br>• Night Cream<br>• Facial Cleansing Gel<br>• Blemish 3 Step Kit | The Company's Probulin's Probiotic Skin line contains six products designed to cleanse and exfoliate skin, while supporting brighter and healthier looking skin. The skin line uses the Company's **ProbuSkin® technology** with beneficial probiotic lysate which provides moisturization and helps to protect the lipid barrier. The Blemish 3-Step Kit combines the Cleansing Gel, Facial Serum and Facial Cream. The Facial Cleansing Gel is available in a 100 ml bottle. The Marula Eye Cream and Facial Serum are offered in a 29.9 ml bottle. The Night Cream and Day Cream are available in a 50 ml bottle. |  |

As of the date of this MD&A, the Company has the following Probulin products in development, none of which generate revenue for the Company (other than the Total Care immune product as referenced in "Probiotic Capsules" below):

- **Probiotic Capsules**. The Company is developing several line extensions to its range of ingestible probiotic capsules called Total Care. These line extensions are anticipated to include focus areas such as immune support, gas and bloating, diarrhea and constipation. The Company launched the Total Care Immune product in January 2021 and is planning the launch of the remaining lines in the fourth quarter of 2021;

- **Prebiotics and Postbiotics**. The Company is in the initial phase of vetting prebiotics and postbiotics products, such as capsules and, potentially, gummies, with a plan to launch such products in the second half of 2021; and

- **Probiotic Gummies**. The Company is developing a new probiotic gummy without the use of spore forming bacteria. The Company is in the research phase of developing new probiotic gummy supplements and is developing a manufacturing process for gummies using primary native bacteria species that are resident in the human gut microbiome rather than spore forming bacteria. .

## COVID-19 Response

As disclosed in Note 3(m) to the Company's Consolidated Financial Statements for the years ended December 31, 2020 and 2019, the Coronavirus ("**COVID-19**") pandemic continues to give rise to heightened uncertainty as it relates to accounting estimates and assumptions and increases the need to apply judgments when evaluating the economic environment and its impact on significant estimates.

There is significant uncertainty regarding the extent and duration of the impact that the COVID-19 pandemic will have on Company's operations. The extent to which the impacts of COVID-19 pandemic affects the judgments and estimates described in Note 3(m) to the Company's Consolidated Financial Statements for the years ended December 31, 2020 and 2019, depend on future developments. COVID-19 may impact assumptions relating to the impairment analysis of the Company's right-of-use assets, property and equipment and the information used in determining the estimate of allowances on trade receivables.

The changes in assumptions and inputs during the period ended June 30, 2021 did not impact these unaudited condensed interim consolidated financial statements. Management will continue to monitor and assess the impact of the pandemic on its judgments, estimates, accounting policies and amounts recognized in these unaudited condensed interim consolidated interim financial statements.

## Regulation

The Company is subject to the local, state, and federal laws in the jurisdictions in which it operates. Outside of the United States, the Company's products may be subject to tariffs, treaties and various trade agreements as well as laws affecting the importation of consumer goods and the retail sale of hemp-derived products. The 2018 Farm Bill became law on December 20, 2018. The 2018 Farm Bill removed hemp from the list of controlled substances under the Controlled Substances Act. The 2018 Farm Bill also redefined hemp to include its "derivatives, extracts, and cannabinoids", and accordingly removed popular hemp products, such as hemp-derived CBD from the purview of the U.S. Drug Enforcement Agency (the "**DEA**").

Although the DEA no longer regulates hemp, the U.S. Food and Drug Administration ("**FDA**") retains its authority to regulate ingestible and topical products, including those that contain hemp and hemp extracts such as CBD. FDA regulations govern manufacturing and marketing of food and dietary supplements. These include regulations for food facility registration; current good manufacturing practice ("**cGMPs**") regulations; nutrition and allergen labeling and label claim regulations; rules for submission of received serious adverse event reports; and safety requirements, including, as applicable, new dietary ingredient ("**NDI**") and generally recognized as safe ("**GRAS**") regulations.

Shortly after the 2018 Farm Bill was signed into law, the FDA issued a statement by former Commissioner Dr. Scott Gottlieb on the agency's regulation of products containing cannabis and cannabis-derived compounds, in which the FDA confirmed its authority to regulate ingestible and topical products, including those that contain hemp and hemp extracts such as CBD. The FDA has also stated its concerns over drug claims being made about products that contain CBD, as well as the agency's position that under the federal Food, Drug and Cosmetic Act ("**FD&C Act**") CBD cannot be marketed in a dietary supplement because a product containing CBD was approved as a drug and substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD, and therefore dietary supplements or food are precluded from containing this ingredient (the "IND Preclusion"). The Company believes there are significant arguments against this position in that all conditions of the applicable statute must be met before the IND Preclusion applies. The FDA has maintained this stance.

Over the intervening years, the FDA has sent warning letters to dozens of companies marketing CBD products with disease claims. The letters also reiterate the agency's position that CBD cannot be added to food and dietary supplements. This matter is still in active discussion with the FDA and is unresolved as of the date of this MD&A. While the Company disagrees with the position of the FDA, there is risk that this agency, or the FTC (as defined herein), could take law enforcement or regulatory actions against the Company.

The FDA has acknowledged that there are pathways through which certain Cannabis-derived compounds, such as CBD, might be permitted in a food or dietary supplement. FDA officials have publicly stated that the FDA has authority to issue a regulation that would allow the use of CBD in a food or dietary supplement. The FDA has also confirmed that it is now evaluating whether to pursue such a process, and clarified that the agency would consider 4 doing so if it determines that all other requirements in the FD&C Act are met, including those required for food additives or new dietary ingredients.

On February 4, 2021, Rep. Kurt Schrader (D-OR-5) introduced H.R. 841, which would ensure that Hemp-derived CBD, and other non-intoxicating Hemp-derived compounds, could be lawfully marketed as dietary supplements. The bill would require CBD and Hemp extract product manufacturers to comply with the existing regulatory 5 framework for dietary supplements, to help assure that such products are safe, properly labeled, and manufactured in accordance with current Good Manufacturing Practices. Passage would also help stabilize the Hemp markets, open up a promising economic opportunity for U.S. agriculture, and fulfill the commitments made to Hemp farmers pursuant to the 2018 Farm Bill. Prospects for such passage are improved by the fact that the prior version of H.R. 842, introduced during the 116th Congress (2019-2020), won the bipartisan support of 30 co-sponsors and was referred to the House Committee on Energy and Commerce. However, the bill failed to win passage prior to the congressional session ending. Prospects for passage of H.R. 841 would be further improved by the introduction of companion legislation in the U.S. Senate, although continuing congressional focus on the nation's response to COVID-19 may delay any action.

## Overall Performance

## Selected Financial Information

| (Expressed in United States Dollars) | June 30, 2021 $ | March 31, 2021 $ | December 31, 2020 $ | June 30, 2020 $ |
|---|---|---|---|---|
| Cash and cash equivalents | 11,370,824 | 17,074,030 | 9,262,517 | 18,293,350 |
| Other current assets | 4,895,774 | 5,669,154 | 4,564,770 | 3,653,839 |
| Non-current assets | 734,144 | 780,975 | 528,751 | 8,082,215 |
| **Total assets** | **17,000,742** | **23,524,159** | **14,356,038** | **30,029,404** |
| Current liabilities | 3,181,247 | 3,077,627 | 17,727,426 | 5,417,894 |
| Non-current liabilities | 132,956 | 149,408 | 165,310 | 1,828,048 |
| **Total liabilities** | **3,314,203** | **3,227,035** | **17,892,736** | **7,245,942** |
| **Shareholders' equity** | **13,686,539** | **20,297,124** | **(3,536,698)** | **22,783,462** |

## DISCUSSION OF PERIOD TO PERIOD VARIANCES

Total cash decreased by $5,703,206 to $11,370,824 during the three months ended June 30, 2021 from $17,074,030 at the end of March 31, 2021. The decrease in cash was due to utilization of $5,681,704 for operating activities, the purchase of property and equipment of $2,135 and repayment of lease obligations and interest thereon of $19,367.

Total cash increased by $2,108,307 to $11,370,824 during the six months ended June 30, 2021 from $9,262,517 at the end of December 31, 2020. The increase in cash was due to proceeds from issuance on shares and units amounting to $15,432,583 and from exercise of warrants amounting to $301,205 offset by utilization of $13,561,022 for operating activities, the purchase of property and equipment of $25,723 and repayment of lease obligations and interest thereon of $29,489.

Total cash decreased by $6,922,526 to $11,370,824 during the twelve months ended June 30, 2021 from $18,293,350 at the end of June 30, 2020. The decrease in cash was primarily due to cash used in operating activities amounting to $20,714,859, payment towards second installment of purchase consideration of $1,770,279 the purchase of property and equipment of $25,723 and repayment of lease obligations and interest thereon of $105,173 offset by proceeds from issuance of common shares and units of $15,432,583 and proceeds from exercise of warrants of $301,205.

Other current assets decreased by $773,380 during the three months ended June 30, 2021 when compared with March 31, 2021 due to decrease in prepayments of $1,015,636 offset by an increase in inventory of $115,625 and an increase in trade receivables of $126,631. Non-current assets decreased by $46,831 during the three months ended June 30, 2021 when compared with March 31, 2021 due to decrease in prepayments of $17,182, decrease in right-of-use assets of $14,903 and decrease in property and equipment of $14,746.

Other current assets increased by $331,004 during the six months ended June 30, 2021 when compared with December 31, 2020 due to the increase in inventory of $255,072, an increase in trade receivables of $10,599 and an increase in prepayments of $65,333. Non-current assets increased by $205,393 during the six months ended June 30, 2021 when compared with December 31, 2020 primarily due to increase in

prepayments of $242,815 and decrease in right-of-use assets of $29,489 and decrease in property and equipment of $7,933.

Other current assets increased by $1,241,935 during the twelve months ended June 30, 2021 when compared with June 30 2020 due to the increase in inventory of $470,881, an increase in trade receivables of $177,375 and an increase in prepayments of $593,679. Non-current assets decreased by $7,348,071 during the twelve months ended June 30, 2021 when compared with June 30, 2020 primarily due to write off of good will and intangible assets of $7,460,345, decrease in right-of-use assets of $101,626 and decrease in property and equipment of $28,915.offset by increase in prepayments of $242,815.

Current liabilities increased by $103,620 during the three months ended June 30, 2021 when compared with March 31, 2021. The increase was mainly attributable to an increase in the current portion of purchase consideration payable of $203,710 and an increase in current portion of lease obligations of $1,549 offset by a decrease in trade payables and accrued liabilities of $101,639.

Current liabilities decreased by $14,546,179 during the six months ended June 30, 2021 when compared with December 31, 2020. The decrease was mainly attributable to de-recognition of derivative liabilities associated with warrants and reclassification to equity of $13,975,514, decrease in trade payables and accrued liabilities of $740,898 offset by an increase in the current portion of purchase consideration payable of $167,368 offset by an increase in the current portion of lease obligations of $2,865.

Current liabilities decreased by $2,236,647 during the twelve months ended June 30, 2021 when compared with June 30, 2020. The decrease was mainly attributable to de-recognition of derivative liabilities associated with warrants and reclassification to equity of $2,546,821, decrease in lease obligations of $34,523, decrease in purchase consideration payable of $214,901 offset by an increase in trade payables and accrued liabilities of $559,698.

Non-current liabilities reduced by $16,452 during the three months ended June 30, 2021 when compared with March 31, 2021 due to the decrease in long term lease obligations.

Non-current liabilities reduced by $32,354 during the six months ended June 30, 2021 when compared with December 31, 2020 due to the decrease in long term lease obligations.

Non-current liabilities reduced by $3,931,739 during the twelve months ended June 30, 2021 when compared with June 30, 2020 due to the decrease in non-current portion of purchase consideration of $1,624,934 and decrease in long term lease obligations of $70,158.

## Shareholders' Equity

Shareholders' equity decreased by $6,610,585 during the three months ended June 30, 2021 when compared with March 31, 2021 directly attributable to net loss and comprehensive loss incurred by the Company during the three months ended June 30, 2021 of $6,533,650 and a reduction in contributed surplus of $76,935.

Shareholders' equity increased by $17,223,237 during the six months ended June 30, 2021 when compared with December 31, 2020 directly attributable to increase in share capital of $12,587,489 increase in warrant reserve of $15,633,837 primarily due to reclassification of warrants from derivative liability to equity, increase in contributed surplus of $1,572,823 offset by net loss and comprehensive loss incurred by the Company during the six months ended June 30, 2021 of $12,570,912.

Shareholders' equity decreased by $9,096,923 during the twelve months ended June 30, 2021 when compared with June 30, 2020 directly attributable to increase in share capital of $12,587,489 increase in warrant reserve of $15,633,837 primarily due to reclassification of warrants from derivative liability to equity, increase in contributed surplus of $5,097,164 offset by net loss and comprehensive loss incurred by the Company of $42,415,413.

## Results of Operations

| | For the three months ended June 30, 2021 $ | For the three months ended June 30, 2020 $ | For the six months ended June 30, 2021 $ | For the six months ended June 30, 2020 $ |
|---|---|---|---|---|
| **Revenue, net of discounts** | **1,232,942** | 670,728 | **2,216,438** | 1,681,303 |
| Cost of goods sold | **1,000,525** | 800,294 | **1,919,413** | 1,724,482 |
| **Gross profit** | **232,417** | **(129,566)** | **297,025** | **(43,179)** |
| **Expenses** | | | | |
| General and administrative | **2,894,723** | 1,910,788 | **5,549,857** | 4,066,990 |
| Sales and marketing | **3,673,780** | 1,463,003 | **7,325,349** | 3,760,593 |
| **Total expenses** | **6,568,503** | **3,373,791** | **12,875,206** | **7,827,583** |
| **Net loss from operations** | **(6,336,086)** | **(3,503,357)** | **(12,578,181)** | **(7,870,762)** |
| **Other (income) expenses** | | | | |
| Other (income) | **(10,610)** | (6,500) | (113,075) | (71,768) |
| Interest expense | **4,464** | 16,714 | 9,247 | 24,296 |
| Change in fair value of derivative liabilities | **—** | 100,279 | — | 35,892 |
| Gain on derecognition of derivative liabilities | **—** | — | (70,809) | — |
| Change in fair value of purchase consideration | **203,710** | 77,280 | 167,368 | 254,555 |
| **Total other (income) expenses** | **197,564** | **187,773** | **(7,269)** | **242,975** |
| **Net loss and comprehensive loss** | **(6,533,650)** | (3,691,130) | (12,570,912) | (8,113,737) |
| **Loss per common share - basic and diluted** | **(0.06)** | (0.04) | (0.11) | (0.08) |
| **Weighted average number of common shares - basic and diluted** | **116,852,879** | 99,699,196 | 116,852,879 | 99,699,196 |

### Revenue and cost of goods sold

Revenue during the six months and three months ended June 30, 2021 increased by $535,135 and $562,214 respectively, compared to the six months and three months ended June 30, 2020 due to increase in online sales and higher direct ship pharmacy sales.

Cost of goods sold during the six months and three months ended June 30, 2021 increased by $194,931 and $200,231 respectively, compared to the six months and three months ended June 30, 2020, and was attributable to higher sales.

Gross margin during the six months and three months ended June 30, 2021 was 13% and 19% respectively, compared to -3% and -19% for the six months and three months ended June 30, 2020. The improved margins are a result of more effective inventory management and improvements in managing production costs.

### General and administrative expenses

General and administrative expenses during the six months and three months ended June 30, 2021 increased by $1,792,424 and $1,293,492 respectively compared to the six months and three months ended June 30,

2020. The increase during the six months ended June 30, 2021 was primarily attributable to an increase of $918,893 in professional and consulting fees, increased insurance expense of $487,746, an increase in stock based compensation of $55,656, an increase in printing and filing fee of $277,789, increase in office expenses of $76,914, increase in depreciation of property and equipment of $9,925, increase in allowance for expected credit loss of $38,672, increase in bank service charges of $7,275, increase in other expenses of $22,379, increase in utilities of $2,063 and increase in dues and subscription of $146,856 offset by decrease in amortization expenses of $249,000, reduction in depreciation of ROU assets of $15,005, reduction in rent expense of $135,703, decrease in research and development expenses of $161,484, decrease in travel expenses of $47,945, reduction in taxes and licenses of $10,094 and reduction in salaries and wages of $42,070.

General and administrative expenses during the three months ended June 30, 2021 increased by $1,293,492 compared to the three months ended June 30, 2020. The increase was primarily attributable to an increase of $687,641 in professional and consulting fees, increased insurance expense of $284,051, an increase in printing and filing fee of $48,668, increase in office expenses of $60,432, increase in allowance for expected credit loss of $66,394, increase in bank service charges of $7,498, increase in other expenses of $5,162, increase in utilities of $2,379 and increase in dues and subscription of $107,043 offset by decrease in amortization expenses of $124,500, decrease in depreciation of property and equipment of $9,351, a decrease in stock based compensation of $76,935, reduction in rent expense of $58,998, decrease in research and development expenses of $7,570, reduction in taxes and licenses of $2,782 and reduction in salaries and wages of $4,637.

**Sales and Marketing expenses**

Sales and marketing expenses during the six and three months ended June 30, 2021 increased by $3,564,756 and $1,463,003 respectively compared to the six and three months ended June 30, 2020. The increase during six months was primarily attributable to increased advertising expenses of $3,610,352, an increase in commissions of $101,106, an increase in sales support expenses of $48,806, an increase in training and education expenses of $15,908 and an increase in other expenses related to market research of $6,079 offset by a reduction in salaries and benefits of $139,293 and a decrease in travel expenses of $78,202.

The increase in Sales and marketing expenses during the three months ended June 30, 2021of $1,463,003 was due to increased advertising expenses of $1,975,207, increase in salaries and benefits of $153,323, increased commissions of $43,325, increase in travel expenses of $27,358 and increase in training and education expense of $12,572 offset by reduction in sales support expense of $1,008.

**Other (Income) expenses**

During the six and three months ended June 30, 2021 other expenses decreased by $250,244 and increased by $9,791 respectively compared to the six and three months ended June 30, 2020. The decrease during the six months ended June 30, 2021 was driven by decrease in the fair value of purchase consideration of $87,187, a decrease in change in the fair value of derivative liabilities of $35,892, a gain on de-recognition of derivative liabilities of $70,809, a decrease in interest expense of $15,049 and an increase in other income of $41,307.

During the three months ended June 30, 2021, other expenses increased by $9,791 when compared to the three months ended June 30, 2020. The increase is attributable to increase in the fair value of purchase consideration of $126,430 offset by a decrease in fair value of derivative liabilities of $100,279, a decrease in interest expense of $12,250 and increase in other income of $4,110.

## Liquidity and Capital Resources

The Company defines capital to include its shareholders' equity, which was in a deficiency of $3,536,698 as at December 31, 2020. On January 6, 2021, the Company completed the IPO of 7,000,000 Common Shares at the price of $1.00 per Common Share and 10,000,000 IPO Units at the issue price of $1.00 per IPO Unit for total gross proceeds of $17,000,000. The issuance costs amounted to $1,567,417 and the Company received net proceeds of $15,432,583. The Company's principal objectives in managing capital are: (i) to ensure there is sufficient liquidity to fund its operations and capital projects; (ii) to be flexible to take advantage of opportunities that are expected to provide satisfactory returns; (iii) to maintain a strong capital base to ensure access to debt and capital markets on an as-needed basis; and (iv) to provide an adequate rate of return to its shareholders.

The Company has not committed to any significant capital expenditures as of the date of this MD&A. See "Risk Factors" below and "Caution Regarding Forward-Looking Statements" above.

The unaudited condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge its liabilities in the normal course of operations.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware in making its assessment, of material uncertainties related to events or conditions, such as those described below and herein, that may cast significant doubt upon the Company's ability to continue as a going concern.

During the six months ended June 30, 2021, the Company has incurred net loss of $12,570,912 (June 30, 2020 - $8,113,737) and as at June 30, 2021, the Company has an accumulated deficit of $66,488,910 (December 31, 2020: $53,917,998). In addition, the Company has incurred operating cash-outflow as at June 30, 2021 of $13,561,022 (June 30, 2020: $7,693,101). These circumstances would generally create a significant doubt about the Company's ability to meet its obligations as they become due and, accordingly, the appropriateness of the use of the going concern assumption. However, the Company has previously successfully raised USD$17,000,000 through initial public offering and is contemplating to raise another $7,000,000 through other sources. Under these circumstances the Company maintains the position that the application of going concern assumption is still appropriate.

The unaudited condensed interim consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to the unaudited condensed interim consolidated financial statements should such events impair the Company's ability to continue as a going concern.

## Selected Cash Flow Information

| (Expressed in United States Dollars) | For the six months ended June 30, 2021 $ | For the six months ended June 30, 2020 $ |
|---|---|---|
| Cash used in operating activities | (13,561,022) | (7,693,101) |
| Cash used in investing activities | (25,723) | (213,992) |
| Cash provided by (used in) financing activities | 15,695,052 | (58,057) |
| Net increase (decrease) in cash | 2,108,307 | (7,965,150) |
| Cash, beginning of period | 9,262,517 | 26,258,500 |
| Cash, end of period | 11,370,824 | 18,293,350 |

**Operating Activities**

Cash used in operating activities during the six months ended June 30, 2021 and 2020 was $13,561,022 and $7,693,101, respectively. Cash used in operating activities was driven by general and administrative and sales and marketing expenses during the six months of 2021 and 2020**.**

**Investing Activities**

Cash used in investing activities during the six months ended June 30, 2021 and 2020 was $25,723 and $213,992 respectively. Cash was used primarily for purchase of property and equipment.

**Financing Activities**

Cash provided by (used in) financing activities during the six months ended June 30, 2021 and 2020 was $15,695,052 and ($58,057) respectively. Cash was raised through the IPO in January 2021.

## Risk Factors

Due to the nature of the Company's business, the legal and economic climate in which it operates and its present stage of development, the Company is subject to significant risks. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations. Factors that could cause actual results to differ materially from those set forth in forward-looking information include, but are not limited to: financial risks; inflationary risks; foreign exchange risks; international taxation risks; risks typical of an early stage entity; the Company's ability to obtain or maintain insurance at reasonable rates; product development, facility and technological risks; changes to applicable laws or regulations; ability to obtain or maintain licenses or certifications; product recall and product liability risks; import, export and transportation risks; and the ability to access financing on commercially attractive terms.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at the date of this MD&A.

## Related Party Transactions

"**Related parties**" are defined as management, directors, and principal shareholders of the Company and/or members of their immediate family and/or other companies and/or entities in which a principal shareholder, director or senior officer is a principal owner or senior executive. Consulting fees amounting to $60,000 and $30,000 were paid to Nick Grafton, Vice President, Corporate Development, and Corporate Development Officer of RADD Capital Corp, who also serves as a director of the Company during the six and three months ended June 30, 2021 respectively ($60,000 and $30,000 during the six and three months ended June 30, 2020).

## Critical Accounting Estimates, Assumptions and Judgements

The critical judgment and estimates applied in the preparation of the Company's unaudited condensed interim consolidated financial statements include judgement and estimated applied in determining the following:

- Going Concern;
- Inventory;
- Estimated useful lives and depreciation of property and equipment;
- Income taxes;
- Impairment of non-financial assets;
- Expected credit losses;
- Derivative liabilities;
- Equity-settled share based payments;
- Contingencies;
- Leases;
- Purchase consideration payable.

**New accounting pronouncements not yet effective**

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ending December 31, 2021 and, accordingly, have not been applied in preparing the unaudited condensed interim consolidated financial statements for the period ended June 30, 2021.

***Improving accounting policy disclosures and clarifying distinction between accounting policies and accounting estimates (Amendments to IAS 1 and IAS 8)***

In February 2021, the IASB issued narrow-scope amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 Making Materiality Judgments and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments to IAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

**Internal controls over financial reporting:**

The Company's Chief Executive Officer and Interim Chief Financial Officer are responsible for designing and maintaining internal controls over financial reporting as defined under NI 52-109. At June 30, 2021, the Chief Executive Officer and Interim Chief Financial Officer concluded that the design and operation of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("**COSO**") in Internal Control – Integrated Framework.

The Chief Executive Officer and the Interim Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the period ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect the Corporation's ICFR. No such changes were identified through their evaluation.

# Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The board of directors of the Company mitigates these risks by assessing, monitoring and approving the Company's risk management processes:

**Credit Risk**

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and trade receivables. The cash consists mainly of checking and operating accounts, cash and security deposits. As at June 30, 2021 and December 31, 2020, the maximum amount exposed to credit risks was $11,838,481 and $9,719,575, respectively.

The Company believes that its trade receivables are fully collectable. The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The Company actively monitors its trade receivables by managing and monitoring the underlying business relationships and assesses credit risk on a case-by-case basis and a provision is recorded where required

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

**Market Risk**

*Currency Risk*

The operating results and financial position of the Company are reported in United States dollars. The results of the Company's operations are subject to currency transaction and translation risks.

The Company has no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

*Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bears interest at market rates. The Company does not have significant exposure to interest rate risk.

**Outstanding Share Information**

As of June 30, 2021 the Company had the following common shares, stock options and warrants outstanding:

| | |
|---|---|
| Common shares | 117,342,984 |
| Stock options (vested and unvested) | 4,996,888 |
| Warrants | 29,263,553 |
| Broker warrant units | 632,257 |

**Other MD&A Requirements**

Additional information relating to the Company, including the Company's 2020 Annual Information Form, is available under the Company's profile on SEDAR at www.sedar.com.