



CANNTAB THERAPEUTICS LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS

YEARS ENDED MAY 31, 2022 AND 2021

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The following management discussion and analysis ("MD&A") of Canntab Therapeutics Limited ("Canntab" or "the Company") provides a review of corporate developments, results of operations and financial position for the years ended May 31, 2022 and 2021 ("F2022 and "F2021" respectively). This discussion is prepared as of September 28, 2022 and should be read in conjunction with (i) the consolidated financial statements and the accompanying notes for the years ended May 31, 2022 and 2020. Additional information relating to the Company is available on Canntab's SEDAR profile at www.sedar.com and the Company's website at www.canntab.ca. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

The following management discussion and analysis ("MD&A") of Canntab Therapeutics Limited ("Canntab" or "the Company") provides a review of corporate developments, results of operations and financial position for the years ended May 31, 2022 and 2021 ("F2022 and "F2021" respectively). This discussion is prepared as of September 28, 2022 and should be read in conjunction with (i) the consolidated financial statements and the accompanying notes for the years ended May 31, 2022 and 2021. Additional information relating to the Company is available on Canntab's SEDAR profile at www.sedar.com and the Company's website at www.canntab.ca. The results reported in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars, which is the Company's functional currency.

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.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to herein as "forward-looking statements"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or statements that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements. The forward-looking statements in this MD&A speak only as of the date of this MD&A or as of the date specified in such statement.

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COMPANY OVERVIEW

Canntab Therapeutics Limited ("Canntab" or the "Company") was incorporated on April 20, 2016 under the Canada Business Corporations Act. The Company, with its head office located at 223 Riviera Drive, Markham, Ontario, L3R 5J6, is a Canadian phytopharmaceutical company focused on the manufacturing and distribution of a full suite of hard pill cannabinoid formulations in multiple doses and timed-release combinations. Canntab's proprietary hard pill cannabinoid formulations provide doctors, patients and consumers with medical grade solutions which incorporate all the features one would expect from any prescription or over the counter medication sold in pharmacies around the world.

Canntab trades on the Canadian Securities Exchange under the symbol "PILL", the OTCQB Best Market under the symbol "CTABF" and the Frankfurt Stock Exchange under the symbol "TBF1".

The Extended Release Tablet ("XR" or the "XR Tablet") is a proprietary phytocannabinoid vehicle that is designed to directly address the drawbacks and challenges of competing oral delivery systems. These challenges include, but are not limited to, accuracy of dosing, onset times, duration of action, bioavailability, discreetness of consumption, ease of spoilage and the reduction of side effects, and are all directly addressed by the unique formulation of the XR Tablet. The XR Tablet is designed to contain either THC, CBD or a combination of THC/CBD (depending on the composition of the medicine), permitting it to meet the demands of a broader patient base than the current synthetic-THC based pills in the market today.

Intellectual property underpins the value of XR Tablets in the form of four international patent applications already filed. With the recent Health Canada licensing amendment that allows for sales directly to the consumer, the Company is now aggressively moving forward with its business plan and full commercialization of its brand and products.

CURRENT HIGHLIGHTS

- ◆ In September, 2022, received agreement from holders of debentures subscribed for in December, 2020 to (i) extend the maturity date of the debentures from December 30, 2022 to October 31, 2023, and (ii) to forbear from declaring or acting upon, or exercising related rights or remedies, under the debentures.
- ◆ Received approval from Saskatchewan Liquor and Gaming Authority and Nova Scotia Liquor Corporation to market the Company's full product range in those respective provinces.
- ◆ Entered into an affiliate agreement in March, 2022 with OnPharm-United, a 600+ network of independent pharmacy owners in Ontario.
- ◆ Signed agreement with First Nations Growers GP Inc. in February, 2022 to address the opiate and illicit drug crisis affecting Indigenous peoples throughout Canada.
- ◆ Finalized a convertible debenture in January, 2022 offering for gross proceeds of \$1,311,999 on terms similar to previous offering in December, 2020, maturing by January, 2024

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- ◆ Official launch of online e-commerce platform and web site at www.canntab.ca on January 20, 2022, providing Canadians with an opportunity to source true medical THC and CBD in a pharmaceutical grade hard tablet from the only THC and CBD provider in hard tablet in Canada, with initial orders completed and shipped during 2022 Q3
- ◆ Started regular shipping to the Ontario Cannabis Store ("OCS") in January, 2022.

RECENT EVENTS

Debenture Amending Agreement

On September 22, 2022, pursuant to the terms of the Interlender Agreement dated December 21, 2020, the Company entered into a Debenture Amending Agreement with the holders of the debentures issued on December 30, 2020 under which the parties agreed:

- ◆ to extend the maturity date of the debentures from December 30, 2022 (the "current maturity date") to October 31, 2023;
- ◆ to waive any default in payment due and payable as of the current maturity date and to forbear from enforcing any enforcement rights under the Interlender Agreement, or to forbear from declaring or acting upon, or exercising related rights or remedies under the debentures, relating to the current maturity date; and
- ◆ that all other terms of the debenture shall continue in full force and effect.

OnPharm-United affiliate agreement

On March 23, 2022, the Company announced that it had entered into an affiliate agreement with OnPharm-United, a 600 plus network of independent pharmacy owners throughout the Province of Ontario. OnPharm-United is dedicated to providing its members with the ability to maintain their independent status while benefiting from increased buying and negotiating power. The network also provides access to a suite of innovative programs, services and resources. All member pharmacies will have access to educational information on medical cannabis, Canntab's exclusive hard tablet medical products, including cannabidiol ("CBD") and tetrahydrocannabinol ("THC"), and all necessary tools to permit the pharmacists to refer patients to the Canntab.ca website to fulfill their prescriptions for medical cannabis

Indigenous Peoples Agreement

On February 7, 2022, the Company announced a strategic planning collaboration and commercial partnership to create an Indigenous Opiate and Illicit Drug Crisis Plan (the "Plan") lead by First Nations community leader Chief Adam Pawis of the Shawanaga First Nation. The Plan includes Canntab providing direct online access through a First Nations specific web portal designed to service Indigenous communities and their members nationwide, both on and off First Nations territories. The goal in entering into this partnership is to provide health and wellness solutions to over 100,000 patients, helping to mitigate opiate use and abuse and other medical issues utilizing Canntab's products.

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The Canntab web portal is providing First Nations-Inuit and Indigenous Peoples with customized access to Canntab's offering of patented and proprietary pharmaceutical grade cannabidiol ("CBD") and tetrahydrocannabinol ("THC") in solid dose pills and caplets. Canntab's alternative solutions will be made available online to service the most remote First Nation's communities and its members regardless of location.

The Plan is being conducted through an agreement with First Nations Growers GP Inc. The agreement is for an initial one-year term, which is renewable, and provides for a cash fee of \$30,000 for start-up costs and an issuance of 1,000,000 warrants upon the satisfaction of specified milestones and regulatory approval, which are exercisable into one common share of Canntab at price of \$0.80 per warrant for a period of 24 months.

Current sales results and initiatives

In a currently declining economy and burdensome regulatory environment in Canada, it has become apparent that the emerging Canadian cannabis market by itself (i) will take longer to fully adopt the Company's technology and products than its current financial resources will allow. Despite numerous agreements and/or marketing initiatives, sales at a commercially viable level in Canada have yet to materialize. As such, Canntab's business model has expanded to explore the possibility/opportunity of licensing its patented technology to global cannabis manufacturers and other strategic parties. We are currently using our patented process to bring products to market in Canada and Australia and moving forward to manufacture in various parts of the world. Towards that goal, we are currently engaged in discussions with parties from markets such as the USA, Australia, Germany, UK, Chile, and the Scandinavian countries that recognize the uniqueness of our technology and products and the benefits for the market they serve. Management believes that it will close licensing and on-going royalty payments with several of these international partners.

In the meantime, the Company is continuing to pursue its current sales initiatives as follows:

- ◆ conversion of production activity to a small batch special order basis, such that all existing sales can be fulfilled from the Company's current inventory
- ◆ continued growth of online sales and sales through the Ontario Cannabis store
- ◆ recent completion of registration of other provincial distribution bodies, including Nova Scotia and Saskatchewan
- ◆ discussions with Quebec based companies to license the Company's technology and produce in Quebec

Sales initiatives in F2022

E-Commerce platform

On January 20, 2022, the Company announced the official launch of its online e-commerce platform and web site at www.canntab.ca. The e-commerce platform and web site provide Canadians with an opportunity to source true medical THC and CBD in a pharmaceutical grade hard tablet. Canntab is now able to script patients directly online, take in existing or new prescriptions from doctors or even share a prescription with another licensed producer. The recent amendment to the medical sales license now allows Canntab to sell and distribute its 12 Health Canada approved SKU's (instant release tablets delivering THC, CBD and a combination of THC/CBD in 12 different strengths) directly to every medically prescribed patient across the country.

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Ontario Cannabis Store

The Company executed a Master Cannabis Supply Agreement with OCS in September, 2021. In January, 2022, Canntab completed its first two shipments to OCS. These initial deliveries to the OCS mark the beginning of a productive and growing relationship. The Company's products are now available to all Ontario Cannabis stores for purchase, in addition to being available for sale via the OCS website. Canntab will support the sales and distribution of the Canntab brand with strong marketing materials and point of sale programs, engaging expert teams to educate all Ontario budtenders about the unique nature of Canntab's products and its patented delivery system.

Management is confident of further future listings and significant orders from OCS under the Master Cannabis Supply Agreement. The Company is also actively engaged with other provinces to complete the application process to list our products with their respective regulatory bodies.

Pathway Health Corporation

In December, 2021, Canntab entered into a service agreement with Pathway Health Corporation ("Pathway"). Pathway is one of the largest providers of out-of-hospital pain management services in Canada, owning and operating nine community-based clinics across four provinces. Its team of healthcare professionals and clinic staff can assess and treat patients with chronic pain or those interested in medical cannabis.

Canntab's full suite of oral tablet products consisting of a range of both THC and CBD strengths will be available to patients served by Pathway. Canntab believes this type of dosage format will be preferred by certain patients - such as those in the senior demographic, who are largely interested in a product that is easy to administer and yet, is also titratable due to the availability of different strengths. With a network of specialized medical clinics in major markets across Canada that treat patients with chronic pain, the largest out-of-hospital chronic pain centre and the largest medical cannabis tele-health network in Canada, Canntab's medical cannabis products can potentially be made available to tens of thousands of medical cannabis patients. Pathway highly anticipates Canntab's introduction to the market of its extended release tablets (XR Tablet) which is planned for early 2023.

Levitee Clinics Inc.

In December, 2021, Canntab entered into a service agreement with Levitee. Servicing over 35,000 patient visits in the last 12 months, Levitee is establishing itself as a leader in the integrative wellness space. Levitee aims to transform mental health and addiction treatments through the integration of alternative medicinal therapies. Levitee also operates three pharmacies in Alberta specializing in filling prescriptions for patients with substance use disorders, mental health conditions and chronic pain.

Canntab's full suite of oral tablet products including a comprehensive range of both THC and CBD strengths will be made available to Levitee and their patients. It is believed that a hard tablet delivery format will be the preferred dosage format by many of Levitee's patients including, more specifically, the senior demographic and patients with several issues related to the use of opiates and other related painkillers. Such patients are largely interested in a product that is easy to administer and is also titratable due to the availability of multiple strengths.

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Since the signing of the agreement, Levitee has experienced a significant turnover of its executive suite and Board of Directors and its current market value is 5% of what it was. As such, the Company do not expect to generate any revenue from this initiative.

Convertible debentures

On January 31, 2022, the Company closed on its second private placement of \$1,311,999 of secured debentures, issued at a price of \$1,000 per debenture with a term of two years and due by January 31, 2024. The proceeds have been used to fund working capital for the Company and for general corporate purposes. Some of the major terms of the issuance, essentially similar to the first convertible debenture offering in December, 2020, are as follows:

- (i) The principal amount bears interest at a rate of 10% per annum, payable quarterly in cash on the last business day of each calendar quarter. If the debenture holder elects, in its sole and absolute discretion, interest may be paid in common shares at the conversion price at any time following the issue date.
- (ii) The debentures are convertible into common shares of the Company at a conversion price of \$0.70 per share, and will mature two years from the date of issuance. Beginning on the date that is four months and one day following the closing date of the offering, the Company will have the right to prepay or redeem a part or the entire principal amount of the convertible debentures plus any accrued and unpaid interest at any time by providing a minimum of 20 days and a maximum 60 days of redemption notice prior to the redemption date. The conversion price will be subject to customary adjustments in certain events.
- (iii) On closing, the Company issued to the purchasers of the convertible debentures one share purchase warrant for each share underlying the convertible debenture purchased, or 1,874,285 warrants in total. The warrants are exercisable for a period of two years from issuance into shares of the Company with each warrant entitling the holder thereof to acquire one share at an exercise price of \$0.90 per share. The warrants are subject to an acceleration right exercisable by the Company at its option if, for the preceding 15 consecutive trading days, the volume weighted average trading price of the shares is greater than \$1.05 per share. If the Company provides notice that it intends to exercise its acceleration right, the accelerated expiry date of the warrants will be the 30th calendar day following the date of such notice of exercise.
- (iv) There are numerous other conditions with respect to conversion features, ratchet features and/or redemption privileges that caused the conversion feature and warrants to be classified as derivative liabilities and revalued each reporting period.

On September 22, 2022, pursuant to the terms of the Interlender Agreement dated December 21, 2020, the Company entered into a Debenture Amending Agreement with the holders of the debentures issued on December 30, 2020 (*see discussion under "Recent Events" section above*).

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COVID-19 PANDEMIC

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. This has resulted in governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business, resulting in a global economic slowdown. Equity markets have experienced significant volatility and weakness and the governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position in the future. The ultimate duration and magnitude of the impact and the efficacy of government and Bank of Canada interventions on the economy and the financial effect on the Company is not known at this time. The extent of such impact will depend on future developments, which are highly uncertain and not in the Company's control, including new information which may emerge concerning the spread and severity of COVID-19 and actions taken to address its impact, among others. The repercussions of this health crisis could have a material adverse effect on the Company's business, financial condition, liquidity and operating results.

In response to COVID-19, the Company has implemented working practices to address potential impacts to its operations, employees and customers, and will take further measures in the future if and as required. At present, the Company has not identified any material continuity-risks specifically associated with COVID-19.

GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will, in the foreseeable future, continue to convert its sales orders into revenue, realize on its assets and discharge its liabilities in the normal course of business as they come due. Accordingly, the consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in these consolidated financial statements. Such adjustments could be material.

As at May 31, 2022, the Company had an accumulated deficit of \$16,699,455 (May 31, 2021 - \$13,010,269). Working capital as at May 31, 2022 was a deficiency of \$1,092,903 compared to a surplus of \$1,849,825 as at May 31, 2021. For the year ended May 31, 2022, net loss and comprehensive loss was \$3,689,186 (2021 - \$4,419,782). Other than some initial licensing fees received and some recent online and international sales, operations since inception have been largely funded from the issuance of shares and convertible debentures, the exercise of stock options and warrants and the sale of excess equipment.

As evidenced by its accumulated deficit, the Company has, during its start-up phase, made significant capital and operational investments from the funds raised. These funds have been used to build out the legal and operating infrastructure, the intellectual property portfolio and to obtain the production and sales licences necessary to capitalize on the opportunities within the cannabis marketplace in Canada and internationally.

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The Company has undergone numerous recent financing initiatives as follows: (i) an initial convertible debenture offering for gross proceeds of \$1,575,000 in December, 2020, (ii) a second convertible debenture offering for gross proceeds of \$1,311,999 in January, 2022, (iii) \$658,860 raised from exercise of share purchase warrants, stock options, special warrants and broker warrants since April, 2021, and (iv) \$239,000 from the sale of excess equipment. Based on the above and all other business initiatives being undertaken by management, the Company anticipates that it will have sufficient cash on hand to service its liabilities and fund operating costs for the immediate future, but there is uncertainty as to how long these funds will last. The Company believes that, based on its revenue forecasts, expected opportunities in the marketplace and the ability to reduce expenditures, if required, it could continue as a going concern for the foreseeable future. To achieve that, the Company will need to (i) finalize delivery on existing purchase orders and continue to develop its marketing opportunities into further revenue generating transactions, (ii) arrange future financing that will largely depend upon prevailing capital market conditions and the continued support of its shareholder base, and (iii) identify and negotiate partnerships to assist Canntab in expanding its product offerings in Canada, United States, and other international jurisdictions. Management will need to continue assessing its financing options to raise the funds required to continue its strategy of expanding its product line, manufacturing facilities, research and development and geographic coverage. However, there can be no assurance that management's fund raising plans will be successful. While the Company has been successful in recent fundraising efforts as noted above, there can be no assurance that additional funds could be raised in the future. As a result, these factors indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

PRODUCTS

The recent amendment to the medical sales license now allows Canntab to sell and distribute its 12 Health Canada approved SKU's directly to every medically prescribed patient across the country. The Company is selling both THC and CBD tablets and caplets in a variety of doses in an Instant Release ("IR") format under the prescription name INSTACANN®.

The Company has developed the formulation and prototype for its next product, the Extended Release Tablet ("XR Tablet"), which delivers standardized medical cannabis extract from selective strains in a solid, extended release pharmaceutical dosage. The XR Tablet is a proprietary phytocannabinoid vehicle that is designed to directly address the drawbacks and challenges of competing oral delivery systems, including, but not limited to, accuracy of dosing, onset times, duration of action, bioavailability, ease of spoilage, and the reduction of side effects. The Company is rapidly moving toward the commercialization phase and gearing up for its first series of pre-clinical trials. The Company plans to manufacture and distribute the XR Tablet in legal medical cannabis jurisdictions including Canada, select states within the United States, Australia, and Germany.

In addition, Canntab has formulated an Oral Dissolvable THC Tablet ("ODT"). This tablet is intended to dissolve under one's tongue as opposed to swallowing the tablet as one does with both our IR and XR tablets and caplets. It actually breaks the brain barrier by being absorbed through an individual's buccal cavity. It boasts a 10 minute onset time on average and is the fastest cannabis delivery mechanism other than smoking or combusting cannabis. The intended targets for using these tablets are both the medical and "adult use" users.

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The ODT tablets will be available on December 2022. They have been approved for listing by the OCS and Canntab awaits their purchase order. The XR Tablets are expected to be available early in 2023. The XR tablets/caplets will come in the following strengths: (i) THC - 5mg and 10 mg, and (ii) CBD - 25 mg and 50 mg. The oral dissolvable THC tablets will come in 5mg.

INTELLECTUAL PROPERTY

The success of the Company's business depends in part on its ability to protect its technology and formulations related to pharmaceutical preparations containing natural or synthetic cannabinoids. In recognition of this, the Company continues to expand its intellectual property portfolio, which includes patent and trademark applications in the United States and Canada. On September 21, 2020, the Company announced it had been awarded a US patent titled "Modified Release Multi-Layer Tablet Cannabinoid Formulations" (*see discussion under "Recent Events" section above*). The Company's intellectual property portfolio includes numerous patent applications in Canada, the United States and internationally.

The Canadian patents/patent applications that were filed pertain to a variety of Canntab's innovative technologies related to oral dosage formulations of pharmaceutical cannabis, including Sustained Release Cannabinoid Formulations and Sustained Release Cannabinoid Pellets, Immediate Release Cannabidiol Formulations; Modified-Release Multi-Layer Cannabinoid Formulations; Flash-Melt Cannabinoid Formulations; and Bi-layer Cannabinoid Tablets.

These patent applications are part of Canntab's continuing strategy to develop a comprehensive intellectual property portfolio which covers the company's technology and formulations related to pharmaceutical preparations which contain natural or synthetic cannabinoids. Canntab is currently developing a number of products which utilize this technology, including a variety of extended released tablets containing a mixture of THC (Tetrahydrocannabinol) and CBD (Cannabidiol) that may be helpful in the treatment of a number of ailments, such as sleep disorders, post-traumatic stress disorder (PTSD), social anxiety, addiction, arthritis, general pain, pain management and appetite loss associated with cancer treatments, and addiction treatment therapy of opioids and other painkillers.

Canntab has an issued patent in each of Canada, Australia, and the United States. It has a further seven patent applications pending in those countries. One of the seven and one as yet unfiled application will be filed around the world. In addition to patents, the Company also has numerous trademark applications in the United States and Canada that cover four potential trade names for the XR Tablet.

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SELECT FINANCIAL INFORMATION

	Years ended May 31		
	2022	2021	2020
	\$	\$	\$
Cash and cash equivalents	691,111	1,490,863	2,090,438
Working capital (deficiency)	(1,092,903)	1,849,825	2,029,009
Shareholders' equity	(311,223)	2,268,758	3,528,742
Revenue	293,362	-	133,334
Operating expenses	2,581,754	2,151,646	2,003,628
Net loss and comprehensive loss	(3,689,186)	(4,419,782)	(2,607,244)
Loss per share	(0.10)	(0.13)	(0.10)

(Operating expenses defined as total expenses less interest and non-cash items including depreciation and amortization, share based compensation, and interest and accretion)

QUARTERLY PERFORMANCE

The following table highlights certain key quarterly financial highlights. Commentary on the selected highlights is included under "Results of Operations" and "Liquidity and Capital Resources".

	May-2022	Feb-2022	Nov-2021	Aug-2021	May-2021	Feb-2021	Nov-2020	Aug-2020
	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1
	\$	\$	\$	\$	\$	\$	\$	\$
Balance sheet								
Cash and cash equivalents	691,111	1,501,215	331,746	980,069	1,490,863	1,434,375	397,536	1,058,809
Working capital	(1,092,903)	543,648	692,993	1,157,565	1,849,825	2,181,522	934,139	1,565,548
Shareholders' equity (deficiency)	(311,223)	1,055,613	950,728	1,913,360	2,268,758	3,370,490	3,747,016	3,068,459
Income statement								
Tablet sales	39,540	48,461	170,850	34,511	(843,375)	465,375	378,000	-
Operating expenses	630,372	620,336	557,528	773,518	671,346	418,854	536,055	525,391
Net loss and comprehensive loss	(1,444,284)	(418,338)	(1,222,737)	(603,827)	(2,304,324)	(604,697)	(609,769)	(900,992)

Operating expenses are defined as total expenses less non-cash items (share based compensation and depreciation and amortization)

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RESULTS OF OPERATIONS

Year ended May 31, 2022 compared to May 31, 2021

The Company had a net loss of \$3,689,186 for F2022 compared to \$4,419,782 for F2021.

As a result of the provisions of the MediPharm MOU, the Company did not record any sales revenue during F2021. During F2022, the Company recognized revenue, net of estimated return provisions, of \$293,362 on the first two components of its Australian order, sales to the Ontario Cannabis Store and initial online sales.

As the Company has become active operationally, operating expenses in F2022 of \$2,581,754 increased by \$430,108 compared to F2021 of \$2,151,646. The major components of the operating expenses (*defined as total expenses less interest and accretion and non-cash items such as share based compensation, depreciation and amortization, impairment losses and losses on derivatives*) are as follows:

- Employee compensation and benefits were \$1,057,928 in F2022 compared to \$785,637 in F2021, an increase of \$272,291. The headcount increased in F2022 compared to F2021 as the Company hired a new Chief Executive Officer, a new Chief Scientific Officer and higher level staffing as commercial production had started.
- Professional fees increased by \$(1,423) from \$384,993 in F2021 to \$383,570 in F2022 due to higher audit fee accruals F2022 offset by legal fees on the various new affiliate agreements in F2021.
- Consulting fees decreased by \$76,377 from \$573,515 in F2021 to \$497,138 in F2022 as certain staff became full-time employees.
- Marketing and regulatory expenses in F2022 were \$226,388 compared to \$128,175 in F2021, an increase of \$98,213, largely attributable to higher Health Canada licensing costs.
- General and administrative expenses in F2022 were \$211,699 compared to \$198,969 in F2021, an increase of \$12,730 mostly due an increase in external storage costs.

Share based compensation totalled \$450,345 in F2022 compared to \$632,774 in F2021, a decrease of \$182,429 largely due to the issuance of 732,926 stock options in F2021, the related expense of which was fully recognized on issuance as the options vested immediately as opposed to vesting over the life of the options.

Interest and accretion totalled \$566,672 in F2022 compared to \$188,722 in F2021, an increase of \$377,950. The increase was almost all attributable to the convertible debenture offerings completed in December, 2020 and January, 2022.

Depreciation of plant and equipment and right-of-use assets totalled \$591,400 in F2022 compared to \$510,604 in F2021, an increase of \$80,796. The increase was a result of depreciation of leasehold improvements and renovation costs in F2022 that had largely not yet been completed during F2021.

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The Company recorded impairment provisions in F2022 of (i) \$1,008,479 (F2021 - \$263,312) against inventory, (ii) \$400,000 (F2021 - \$Nil) related to production equipment, and (iii) \$Nil (F2021 - \$166,667) relating to collectibility of an advance to a supplier in F2019. The Company recorded a non-cash gain on derivatives in F2022 of \$1,922,639 (F2021 - loss of \$470,321) reflecting the change in fair value of the derivative liabilities that arose from the convertible debenture issuances in December, 2020 and January, 2022 (*see discussion under "Liquidity and Capital Resources" section below*).

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by \$799,752 to \$691,111 as at May 31, 2022 from \$1,490,863 as at May 31, 2021. Working capital as at May 31, 2022 was a deficiency of \$1,092,903 compared to a surplus of \$1,849,825 as at May 31, 2021, a decrease of \$756,922. The major components of the decrease in working capital were the net of the following major transaction flows:

- (1) proceeds from issuance of share capital from exercise of various equity instruments in F2022 of \$658,860,
- (2) net proceeds from convertible debenture offering in January, 2022 of \$1,299,821,
- (3) proceeds from sale of excess equipment of \$239,484, less
- (4) operating expenses in F2022 of \$2,581,754 (*see "Results of Operations" section above*),
- (5) impairment charge against inventory of \$1,008,479, and
- (6) the purchase of plant and equipment and intangible assets in F2022 for \$88,134.

As the Company looks to restructure its business model, significant adjustments have been made to its overhead to preserve working capital. These measures include:

- conversion of production activity to a small batch special order basis, such that all existing sales can be fulfilled from the Company's current inventory
- layoff of almost all staff other than skeleton requirements
- deferral and/or cancellation of consulting arrangements
- agreement executed to sub-let the premises at 225 Riviera, Markham, Ontario
- amendments to the convertible debentures financings of December, 2020 and January, 2022 (under the Agency and Interlender Agreement), including:
 - deferral of effective payment of interest (until at least October, 2023) on both offerings
 - extension of the due date of the December, 2020 financing from December, 2022 to October, 2023

Accounts receivable as at May 31, 2022 of \$209,720 (May 31, 2021 - \$207,363), an increase of \$2,357. It is comprised mostly of HST recoverable from recent quarterly claims. With a CRA audit now completed, the balance is expected to be refunded in full by the end of September, 2022.

Inventory as at May 31, 2022 decreased by \$1,231,390 to \$489,256, compared to \$1,720,646 at May 31, 2021. With sales not materializing as planned, the Company recorded an impairment charge against inventory of \$1,008,479 in F2022 (F2021 - \$263,312). Production activity has been converted to a small batch special order basis, such that all existing sales can be fulfilled from the Company's current inventory

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Accounts payable and accrued liabilities as at May 31, 2022 decreased by \$453,439 to \$967,669, compared to \$1,421,108 at May 31, 2021. Under the terms of the MediPharm MOU, the companies have effectively to reduce the balance owing to MediPharm of \$797,278 as at May 31, 2021 to \$250,000 as at May 31, 2022.

The carrying value of the December, 2020 debentures payable was accreted to their carrying value as at May 31, 2022 of \$1,300,114 from \$968,032 as at May 31, 2021. The related derivative liabilities were revalued on a mark-to-market basis to their estimated fair value as at May 31, 2022 of \$77,229 compared to \$1,105,065 as at May 31, 2021, an unrealized gain of \$1,027,836.

The carrying value of the January, 2022 debentures payable was accreted to its carrying value as at May 31, 2022 of \$126,204 from its initial fair value issuance of \$139,081. The related derivative liabilities were revalued on a mark-to-market basis to their estimated fair value as at May 31, 2022 of \$278,115 from their initial fair value issuance of \$1,172,918 as at May 31, 2021, an unrealized gain of \$894,803.

In June, 2021, 1,384,000 common shares were issued for gross proceeds of \$1,038,000 upon exercise of 1,384,000 share purchase warrants issued in connection with the private placement that closed in March, 2020. Of the total proceeds, \$813,750 were received prior to May 31, 2021, presented as shares to be issued on the consolidated statement of financial position as at May 31, 2021, and transferred to share capital in the current period. The difference of \$224,250 was received in F2022. Further proceeds of \$434,610 were received from the issuance of 1,546,722 common shares after the exercise of various equity instruments in F2022.

CAPITALIZATION

The Company has common shares and other equity instruments outstanding at each reporting date as follows:

	May 31, 2022	May 31, 2021	Change in reporting period
Common shares	38,909,159	35,938,437	2,970,722
Stock options	1,722,926	2,417,926	(695,000)
Special warrants	1,650,000	2,687,500	(1,037,500)
Share purchase warrants	3,843,035	9,039,750	(5,196,715)
Broker compensation warrants	47,813	401,480	(353,667)
	<u>46,172,933</u>	<u>50,485,093</u>	<u>(4,312,160)</u>
Total equity instruments			

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The details of the major changes in each equity category over F2022 were as follows:

Common share issuances

- In June, 2021, 1,384,000 common shares were issued for gross proceeds of \$1,038,000 upon exercise of 1,384,000 share purchase warrants (see further discussion above in "Liquidity and Capital Resources" section).
- In January, 2022 and February, 2022, a total of 960,000 common shares were issued for gross proceeds of \$240,000 on the exercise of 960,000 stock options.
- 12,500 common shares were issued in November, 2021 for gross proceeds of \$7,500 on the exercise of 12,500 special warrants. A further 400,000 common shares were issued in February, 2022 for gross proceeds of \$100,000 on the exercise of 400,000 special warrants.
- In January, 2022, 174,222 broker compensation warrants were exercised for cash proceeds of \$130,230, resulting in the issuance of 174,222 common shares.

Stock options, other issuances and expiries

- In September, 2021, the Board of Directors approved the issuance of 465,000 stock options to certain employees. The options are exercisable at a price \$0.80 per option, expire by September 1, 2025, and vest as to 1/6 immediately and 1/6 for each subsequent six month period, such that they are fully vested by March 1, 2024.
- In November 2021, the Board of Directors approved the issuance of 120,000 stock options to certain consultants. The options are exercisable at a price \$0.80 per option, expire by November 11, 2023 and vested immediately.
- In January, 2022, the Company issued to the purchasers of the convertible debentures one share purchase warrant for each share underlying the convertible debenture purchased, or 1,874,285 warrants in total. The warrants are exercisable at a price \$0.90 per option and expire by January 30, 2024. A total of 1,874,285 common shares would be issued if the related debentures were fully converted.
- During the year ended May 31, 2022, a total of 320,000 stock options, 625,000 special warrants, 179,445 broker compensation warrants and 5,687,000 share purchase warrants expired unexercised.

RELATED PARTY TRANSACTIONS AND BALANCES

During the years ended May 31, 2022 and 2021, the Company had the following related party transactions:

	F2022	F2021
	\$	\$
Salary	247,117	245,067
Consulting fees	228,000	310,500
Car allowances	9,600	19,200
Legal fees	46,141	43,736
Share based compensation	271,627	338,173

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- (a) The Company is related to CMAX Technologies Inc. by virtue of common ownership and management. The Company entered into a lease renewal agreement with CMAX in fiscal 2020 under which it is obligated to make monthly rental payments of \$10,000 until expiry on December 31, 2022. During the year ended May 31, 2022, the Company made payments of \$120,000 (2021 - \$120,000).
- (b) Legal fees recorded during the year ended May 31, 2022 from a law firm of which a director is a partner totalled \$46,141 (2021 - \$43,736).
- (c) Subscriptions from related parties of \$280,000 and \$250,000 are included in the debenture financings that closed in January 2022 and December 2020 respectively.
- (d) In October, 2020, the Company completed related party asset acquisitions totalling \$1,318,000 through the issuance of 2,584,313 common shares.
- (e) Accounts payable and accrued liabilities as at May 31, 2022 includes \$216,972 (May 31, 2021 - \$164,624) with respect to balances owing to related parties for the transactions disclosed above.

SUBSEQUENT EVENTS

- On September 22, 2022, pursuant to the terms of the Interlender Agreement dated December 21, 2020, the Company entered into a Debenture Amending Agreement with the holders of the debentures issued on December 30, 2020 (*see discussion under "Recent Events" section above*).
- In September, 2022, the Company entered into an agreement to sub-let its premises located at 225 Riviera Drive, Markham, Ontario.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

These standards have been amended to use a consistent definition of materiality throughout all accounting standards, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have a significant impact on the consolidated financial statements.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

As at the date of authorization of these consolidated financial statements, the IASB has issued the following new or revised standards which are not yet effective. The Company has not yet assessed the impact of these amendments on the consolidated financial statements.

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IAS 16 "Property, Plant and Equipment"

This standard has been amended to prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use, clarify that an entity is "testing whether the asset is functioning properly" when it assesses the technical and physical performance of the asset and requires certain related disclosures. The amendments are effective for annual periods beginning on or after January 1, 2022.

IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"

This standard has been amended to clarify the classification of liabilities as current or non-current. This amendment is effective for annual periods beginning on or after January 1, 2022.

IAS 37 "Provisions"

This standard has been amended to clarify that, before a separate provision for an onerous contract is established, an entity recognizes an impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract and to clarify the meaning of costs to fulfil a contract. The amendments are effective for annual periods beginning on or after January 1, 2022.

IFRS 9 "Financial Instruments"

This standard has been amended to address which fees should be included in the 10% test for derecognition of financial liabilities. This amendment is effective for annual periods beginning on or after January 1, 2022.

IAS 12 "Income Taxes"

This standard has been amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments are effective for annual reporting periods beginning on or after January 1, 2023.

IAS 8 "Definition of Accounting Estimates"

On February 12, 2021, the IASB issued Definition of Accounting Estimates. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023.

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IAS 1 "Accounting Policies"

On February 12, 2021, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and an update to IFRS Practice Statement 2 "Making Materiality Judgements" to help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include a requirement for companies to disclose their material accounting policies rather than their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. The amendments are effective for annual periods beginning on or after January 1, 2023.

CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and ensure sufficient liquidity in order to develop its resources properties so that it can provide adequate returns for shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital as total shareholders' equity.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, an effect on the results of operations or financial condition of the Company.

RISKS AND UNCERTAINTIES

An investment in the Company involves significant risks and must be considered speculative due to the nature of the Company's business. Investors should carefully consider the risks and uncertainties described below. This list of risks and uncertainties below is not exhaustive. Furthermore, additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect its business.

Risks related to the Company's business

The Company has a history of operating losses and may never achieve profitability. The Company is an early stage product development company, and accordingly, it has not yet generated any revenues.

The Company expects to be involved in research and development to create several oral cannabis products and then performing extensive trial testing and conducting research studies with such products prior to determining their commercial viability. This process may take several years and require significant financial resources without revenue. The Company expects these expenses to result in continuing operating losses for the foreseeable future.

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Any failure to successfully develop and obtain regulatory approval for products would have a material adverse effect on the Company's business, financial condition and results of operations.

Protection of patents and trademarks

The Company's success will depend in part upon its ability to obtain maintain current patents and trademarks (as well as successfully file future patents and trademarks) for its current and future product lines. Obtaining such patent and trademark protection can be costly and the outcome of any application for such can be unpredictable. In addition, any breach of confidentiality by a third party by premature disclosure may preclude the obtainment of appropriate patent and trademark protection, thereby affecting the development and commercial value of the Company's technology and products.

Regulatory proceedings, investigations and audits

The Company's business requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require The Company to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operation.

Insurance and uninsurable risk

The Company may become subject to risks against which it cannot insure or against which it may elect not to insure. Settling related liabilities would reduce funds available for core business activities. Settlement of uninsured liabilities could have a material adverse effect on our financial position. The Company currently maintains no insurance other than director and officer liability insurance. The Company may, however, acquire insurance in the future to protect against certain risks in such amounts as management considers reasonable. While it may obtain insurance against certain risks, the nature of these risks is such that liability could exceed policy limits or could be excluded from coverage. Even after acquiring insurance, such insurance may not cover all the potential risks associated with product liability. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability.

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Product liability

As a cannabis oral dosage formulation company engaged in the research and development of advanced pharmaceutical grade formulations of cannabinoids designed to be ingested by humans, the Company, upon commercial launch, faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company. This scenario could prevent or inhibit the commercialization of the Company's potential products. To date, there have been no product related issues.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be decided against the Company, such a decision could adversely affect the Company's ability to continue operating and the value of the common shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources, including the time and attention of management and available working capital. Litigation may also create a negative perception of the Company's brand. At this time, there is no outstanding litigation against the Company.

Competition

The medical cannabis industry in which the Company operates is, and is expected to continue to be, very competitive, and as such there is there is potential that the Company will face intense competition from other companies, some of which can be expected to have more financial resources and manufacturing and marketing experience than the Company. Our competitors may vary in size, from well capitalized businesses with substantial operations and revenues to smaller and earlier stage companies. Competitors with ACMPR licenses, or that may obtain ACMPR licenses sooner than the Company, may also be able to devote greater resources to develop and market competing products and establish broad customer bases sooner than the Company.

Conflicts of interest

The Company's directors and officers may currently be involved, or become involved, in other business ventures that could compete with its products and services. Business opportunities for the Company may create circumstances in which outside interests of directors and officers conflict with the interests of the Company. Directors and officers are required to act in good faith and in a manner that benefits the Company.

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It is possible, however, that directors and officers may owe similar consideration to another organization(s). If these and other conflicts of interest are resolved in a way that has a material adverse impact on the Company, the Company will take the necessary steps to protect its interests.

Dependence on key personnel

The Company depends on support from existing directors and officers and its ability to attract, and retain, new directors, officers and other personnel with appropriate skill sets. Inability to retain key team members or find new professionals to serve in important roles could have a material adverse effect on the Company's business. There can be no assurance that we will be able to attract or retain the quality of personnel required in the future.

Financial liquidity

The Company has not yet generated meaningful revenue and will likely operate at a loss until its first product gets to market. It may require additional financing in order to execute its business plan. Its ability to secure required financing will depend in part upon investor perception of the ability to create a successful business. Capital market conditions and other factors beyond the Company's control may also play important roles in its ability to raise capital. The Company can offer no assurance that it will be able to successfully obtain additional financing, or that future financing occurs on terms satisfactory to management and/or shareholders. If funds are unavailable in the future, or unavailable in the amounts felt required, or unavailable on acceptable terms, the Company may be required to cease operating or modify our business plans in a manner that undermines our ability to achieve our business objectives.

Costs of maintaining a public listing

As a result of obtaining a public listing, the Company will incur greater legal, accounting and other expenses related to regulatory compliance than it would have had it remained a private entity. The Company may also elect to devote greater resources than it otherwise would have on communication and other activities typically considered important by publicly traded companies.

Dilution

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive to the existing shareholders.

Financial market turmoil

Global financial market and economic conditions can pose a significant threat to economic growth in almost all sectors and economies, causing a decline in consumer and business confidence, a reduction in credit availability and a dampening in business and household spending.

Dividends

No dividends on the common shares have been paid by the Company to date. The Company currently plans to retain all future earnings and other cash resources, if any, for the future operation and development of its business. Payment of any future dividends, if any, will be at the discretion of the Company's Board of Directors after considering account many factors, including the Company's operating results, financial condition, and current and anticipated cash needs.

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Share price volatility and speculative nature of share ownership

The Company is listed for trading on the CSE, resulting in many legacy shareholders being able to freely trade their shares. Factors both internal and external to the Company may significantly influence the price at which shares trade, and the volatility of the share price. Quarterly operating results and material developments reported by the Company can, and likely will, influence the price of our shares.

Sentiment toward cannabis stocks, as well as toward the stock market in general, is among the many external factors that may have a significant impact on the price of the Company's shares. The Company is a relatively young company that is not generating revenue and does not possess significant cash reserves. As such, it should be considered a speculative investment. There is no guarantee that a liquid market will be developed or maintained for the Company's shares.

Risks relating to the Company's common stock

A decline in the price of the Company's common stock could affect its ability to raise further working capital and adversely impact its ability to continue operations. A prolonged decline in the price of the Company's common stock could result in a reduction in the liquidity of its common stock and a reduction in its ability to raise capital. Because a significant portion of the Company's operations have been and will be financed through the sale of equity securities, a decline in the price of its common stock could be especially detrimental to the Company's liquidity and its operations. Such reductions may force the Company to reallocate funds from other planned uses and may have a significant negative effect on the Company's business plan and operations, including its ability to develop new products and continue its current operations. If the Company's stock price declines, it can offer no assurance that the Company will be able to raise additional capital or generate funds from operations sufficient to meet its obligations.

Limited operating history

The Company has not generated significant profits or revenues in the periods covered by its most recent financial statements, and as a result, has only a very limited operating history upon which its business and future prospects may be evaluated. The Company is therefore subject to many of the risks common to early-stage enterprises, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions. There is no assurance that The Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Lack of operational liquidity

The expenses of the Company will be funded from cash on hand from the remaining proceeds of the previous offerings. Once such cash has been expended, the Company will be required to seek additional financing. There is no guarantee that any debt or additional equity or equity related offering of securities will be available on terms acceptable to the Company or available at all or that it will be able to locate or sell mineral resources in a timely or profitable manner.