PureKana, LLC

MANAGEMENT DISCUSSION & ANALYSIS

For the Six Months Ended June 30, 2020

Dated: November 20, 2020

This Management's Discussion and Analysis ("**MD&A**") of PureKana LLC ("**we**," "**us**," "**our**," "**PureKana**" or the "**Company**") is dated November 20, 2020 and relates to the consolidated financial position and results of operations of the Company. This MD&A provides a review of the financial results for the six month period ended June 30, 2020, compared to the same periods in the prior year and should be read in conjunction with the unaudited interim condensed financial statements and accompanying notes of the Company for the six months ended June 30, 2020 and the audited financial statements and accompanying notes of the Company for the year ended December 31, 2019. All financial information reflected herein is expressed in US dollars and determined on the basis of International Financial Reporting Standards ("**IFRS**").

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, which could result in a material adjustment to the carrying amounts of assets and liabilities and disclosure of contingent assets or liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following: determining the accrued liabilities; revenue recognition; estimate of inventory net realizable value; going concern assumption. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

PureKana has issued reports on certain non-IFRS measures that are used by management to evaluate the Company's performance. Because non-IFRS measures do not have a standardized meaning, securities regulations require that non-IFRS measures be clearly defined and quantified, and reconciled with their nearest IFRS measure. Where non-IFRS measures are reported, PureKana has provided the definition and reconciliation to their nearest IFRS measure under the heading "*Non-GAAP Financial Measures*".

FORWARD LOOKING STATEMENTS

Certain information provided in this MD&A constitutes forward-looking statements or information (collectively, "forward-looking statements"). Forward-looking statements are typically identified by words such as "may", "will", "should", "could", "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Although these forward-looking statements are based on assumptions the Company considers to be reasonable based on the information available on the date such statements are made, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties, and other factors which may cause actual results, levels of activity, and achievements to differ materially from those expressed or implied by such statements. The forward-looking statements contained in this MD&A are based on certain assumptions and analysis by management of the Company ("**Management**") in light of its experience and perception of historical trends, current conditions and expected future development and other factors that it believes are appropriate. The material factors and assumptions used to develop the forward-looking statements herein include, but are not limited to, the following: (i) the impact of the COVID-

19 pandemic (ii) the regulatory climate in which the Company operates; (iii) the continued sales success of the Company's products; (iv) the continued success of sales and marketing activities; (v) there will be no significant delays in the development and commercialization of the Company's products; (vi) there will be no significant reduction in the availability of qualified and cost-effective human resources; (vii) new products will continue to be added to the Company's portfolio; (viii) demand for hemp-based wellness products will continue to grow in the foreseeable future; (ix) there will be no significant barriers to the acceptance of the Company's products in the market; (x) the Company will be able to maintain compliance with applicable contractual and regulatory obligations and requirements; (x) there will be adequate liquidity available to the Company to carry out its operations; and (xi) products do not develop that would render the Company's current and future product offerings undesirable and the Company is otherwise able to minimize the impact of competition and keep pace with changing consumer preferences; and (xii) the Company will be able to successfully manage and integrate acquisitions, if any.

The Company's forward-looking statements are subject to risks and uncertainties pertaining to, among other things, the adverse impact of the COVID-19 pandemic to our operations, our supply chain, our distribution chain, and to the broader market for our products, revenue fluctuations, nature of government regulations (both domestic and foreign), economic conditions, loss of key customers, retention and availability of executive talent, competing products, the effectiveness of ecommerce marketing strategies, loss of proprietary information, product acceptance, internet and system infrastructure functionality, information technology security, cash available to fund operations, availability of capital and, international and political considerations, the successful integration of acquired businesses, if any, as well as the risks and uncertainties discussed under the heading "*Risks and Uncertainties*" in this MD&A. The impact of any one risk, uncertainty, or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent, and the Company's future course of action depends on Management's assessment of all information available at the relevant time. Except to the extent required by law, the Company assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A, whether as a result of new information, future events, or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements.

COMPANY OVERVIEW

PureKana was organized as a limited liability company in Arizona, United States on May 31, 2017. The Company converted to a Delaware LLC on December 27th, 2019. On that day, a 50.1% controlling interest was sold by the founding members to Heavenly Rx Ltd. The Company's principal business office is located at 6710 N Scottsdale Road, Paradise Valley, Arizona, 85253, United States and its registered and records office is located at 9 E. Loockerman Street, Suite 311, Dover, Delaware 19901.

The Company operates in one reportable segment being the sale of hemp-based cannabidiol ("**CBD**") related products with sales principally generated from the United

States. Hemp extracts are produced from Industrial Hemp, which is defined by Cannabis with less than 0.3% THC. The Company works closely with manufacturers who have the licenses required to manufacture CBD consumer products and e-commerce partners for the sale and distribution of its products.

Revenues from sale of CBD related products were principally generated in the United States.

The Company was formed in May 2017 in Arizona. The Company offers a wide range of CBD products to its customers including ingestibles (tinctures, capsules and gummies) and topicals. The Company's primary source of revenue is from its PureKana.com ecommerce website, however it has recently expanding its sales to retail stores. These retail stores include large retail chains as well as small shops. The Company does not use affiliate marketing as it sees better margin through generating a sale directly through its own marketing efforts and has cultivated a valuable database of customer information over the past three years. PureKana has focused on brand building since its inception and currently has one the leading positions with social media following of its brand in the US. PureKana currently has over 98,000 Instagram followers making it one of the leading CBD brands followed on this influential social media platform. The Company also has followed a tight operating model that efficiently generates sales while maintaining tight control over its expenses. The Company's operating model therefore has focused on developing key strategic relationships with CBD product vendors to produce its products rather than a classic vertically integrated model that other competitors have followed. We have strategic partners in fulfillment, marketing and customer service that have provided PureKana with an ability to scale its business without significant need for capital investment. PureKana has been able to quickly develop its revenues since its inception as result of its partnership model.

FACTORS AFFECTING THE COMPANY'S PERFORMANCE

The Company's performance and future success depends on a number of factors. These factors are also subject to a number of inherent risks and challenges, some of which are discussed below and referred to under the heading "*Risk and Uncertainties*".

The COVID-19 Pandemic

Since December 31, 2019, the outbreak of the novel strain of coronavirus, identified as COVID-19, has resulted in governments worldwide enacting measures to combat the spread of the virus, including in the United States. These measures, which include the implementation of travel restriction, self-isolation measures, and physical distancing, have caused material disruption to businesses globally, resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The deterioration of economic conditions to date has resulted in a surge in unemployment and may lead to a deterioration in consumer balance sheets, all of which may impact consumer spending behavior and could adversely affect the Company's financial performance.

The duration and impact of the COVID-19 is ongoing. It is impossible to forecast the duration and full scope of the economic impact of COVID-19 and other consequential changes it will have on the Company's business, operations and prospects, both in the short term and in the long term. See also "*Risks and Uncertainties - Impacts of COVID-19 to the Company's Business*" below.

Branding

The Company believes that its brand image and awareness is built around consumer trust with a focus on quality. Maintaining and enhancing its brand image and increasing brand awareness in its current markets and in new markets where the Company had limited brand recognition is critical to its continued success.

Maintaining and enhancing the Company's brand image and increasing brand awareness may require the Company to make investments in areas such as marketing, product development, brand development, employee training and public relations, and may require the Company in incur other costs associated with continuing to expand e-commerce sales. These investments may be substantial, and the Company's efforts may not ultimately be successful. Failure to maintain and enhance the Company's brand in any of its key markets may materially and adversely affect the Company's business, results of operations or financial condition.

Product Innovation and Planning

The Company believes that product innovation is integral to its success and it continues to focus on innovation as a key pillar of growth. The Company's business is subject to changing consumer trends and preferences. The success of new product offerings depends upon a number of factors, including the Company's ability to: (i) accurately anticipate customer needs; (ii) develop new products that meet these needs; (iii) successfully commercialize new products in a timely manner; (iv) price products competitively; (v) deliver products in sufficient volumes and in a timely manner; and (vi) differentiate product offerings from those of competitors.

Management and Growth of E-Commerce Sales

Management and growth of the Company's e-commerce sales are essential to growth. The usability of and client experience provided by the Company's e-commerce platform is critical to the success and growth of its e-commerce sales. Any extended software disruption of the Company's e-commerce platform or the failure on the part of the Company to provide an attractive, effective, reliable, user friendly e-commerce platform that offers a wide assortment of merchandise with rapid delivery options and that continually meets the changing expectations of online customers could place the Company at a competitive disadvantage, result in the loss of revenue or harm the Company's reputation with customers and could have a material adverse effect on business and results of operations. The Company also depends on third-party service providers for its e-commerce platform and any service disruption on their part could affect customer ability to access the Company's website resulting in loss of revenue or harm to reputation.

The success of the Company's e-commerce sales is also dependent on the Company's ability to successfully manage the costs, difficulties and competitive pressures associated with shipping, including inventory management and distribution, and compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions to which products are shipped, including laws governing the operating and marketing of e-commerce websites, as well as the collection, storage and use of information on consumers interacting with these websites. If the Company is unable to expand or update its e-commerce site commensurately with competitors, manage shipping and successfully respond to the risks inherent to e-commerce, the Company's financial position and results of operations may be negatively impacted.

Furthermore, if the Company is unable successfully capitalize on digital marketing channels to drive client acquisition and retention, including search engine optimization, email marketing, improved product descriptions, data driven category naming, and the leveraging of social media, the Company's financial position and results of operations may be negatively impacted. Periodic changes to search engine algorithms, which retrieve data from search indices and deliver ranked search results, produce changes in search engine results pages (SERPs). Any changes to these algorithms and therefore search engine results pages could reduce visibility of, and traffic on, the Company's e-commerce website and negatively impact the Company's financial position and results of operations.

Competition

The market for hemp-based CBD wellness products is highly competitive. The competition consists of publicly and privately-owned companies, which tend to be highly fragmented in terms of geographic market coverage, vertical integration and products offered. With the Company's strong brand status and innovative products, Management believes the Company is well-positioned to capitalize on favorable long-term trends in the hemp-based CBD wellness products segment as the FDA establishes guidelines on how the industry will operate.

Growth Strategies

The Company has a successful history of growing revenue and it believes it has a strong growth strategy aimed at meeting or exceeding industry growth rates. The Company's future depends, in part, on Management's ability to implement its growth strategy including (i) product innovations; (ii) management and growth of e-commerce sales; and (iii) growth in retail, wholesale and distributor partnerships. The ability of the Company to implement this growth strategy depends on, among other things, its ability to develop new products that appeal to consumers, maintain and expand brand loyalty and brand recognition, maintain and improve competitive position in the market, and identify and successfully enter, and market products in new geographic areas and segments as well the ability to successfully navigate legislative and regulatory uncertainties. See "*Risks and Uncertainties*".

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 *Agricultural Improvement Act of 2018* (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 CBD from the purview of the U.S. Drug Enforcement Agency ("**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. The FDA governs the regulations applicable to the Company as a vendor and marketer of hemp-derived products. These include regulations for 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. The FDA has stated its concerns over drug claims being made about products that contain CBD, as well as the agency's position that under the *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. Importantly, the FDA has acknowledged there are pathways for FDA to consider with regard to circumstances in which certain cannabis-derived compounds such as CBD might be permitted in a food or dietary supplement. The FDA has authority to issue a regulation that would allow these naturally occurring hemp compounds in a food, beverage or dietary supplement, and the FDA has indicated it is engaging in a rule-making process to evaluate this issue.

CORPORATE HIGHLIGHTS

New Products Launched in 2020

PureKana launched a number of new products in 2020 including lip balms, body balms, dog treats and tinctures and new topical products.

PureKana was a key sponsor of USA CBD Expo at Las Vegas February 2020

The Company was one of the key sponsors at the USA CBD Expo held in Las Vegas in February 2020. One of the key objectives of the Company was to develop its offline business accounts. PureKana was able to further this objective substantially and developed a number of leads and offline accounts as a result.

PureKana secures RiteAid as a customer

The Company secured RiteAid as a key customer in the first quarter of 2020 for its offline business (B2B segment). The first shipment of products occurred in May 2020.

PureKana launches AM/PM products

The Company launched key new products with its new active ingredient product line in May 2020. This product line is intended to bring increased functionality to its CBD products for its customer base and the customer expects to have a range of new products launched in 2020 within this product line. PureKana's AM capsules are formulated with a proprietary natural energy blend that is designed to give you a boost when you need it most. PureKana's PM capsules are formulated with a proprietary natural sleep blend that will help support sound, restful sleep and relaxation.

FINANCIAL INFORMATION

U.S. $ millions	Three months ended June 30, **2020**	Three months ended June 30, 2019	Six months ended June 30, **2020**	Six months ended June 30, 2019
Revenue	**$ 4.0**	$ 9.1	**$ 7.8**	$ 14.5
Gross (loss) profit	**2.6**	6.1	**5.0**	9.7
Operating Expenses	**2.3**	3.4	**4.5**	6.3
Other (income) and expense, net	**0.0**	0.0	**0.0**	0.0
(Loss) income before taxes	**0.3**	2.7	**0.5**	3.4
Net (loss) income	**0.3**	2.7	**0.5**	3.4
EBITDA	**0.3**	2.7	**0.5**	3.4

RESULTS FROM OPERATIONS

Revenue

$US millions	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Revenue	**$ 4.0**	**$** 9.1	**$ 7.8**	**$** 14.5
Direct to Consumer	3.6	8.9	7.1	14.1
Business to Business	0.4	0.2	0.7	0.4

Revenue for the three months ended June 30, 2020 was $4.0 million, a decrease of $5.1 million (57%) compared to $9.1 million for the previous year. Revenue is generated by two segments, Direct to Consumer ("**DTC**") and Business to Business ("**B2B**"). The DTC business accounted for 90% of the second quarter 2020 revenues and the B2B accounted for 10% of the second quarter 2020 revenues compared to the prior period with 98% revenue from DTC and 2% revenue from the B2B segment. Revenue before discounts was $5.0 million for the three months ended June 30, 2020 compared to $10.2 million in the previous period or 49% lower for the DTC segment. The lower net revenue in the DTC business reflected a more competitive market for online CBD sales in the current period and the Company's discounts increased from an average of 9% for the three months ended June 30, 2019 to an average of 21% three months ended June 30, 2020. The impact from the COVID-19 pandemic also impacted online competition as competitors that generated a material amount of their sales from retail stores become more aggressive online to offset a decline in those revenues due to store closures. The Company's B2B sales increased by 100% as the Company successfully expanded its sales into a leading US pharmacy chain during the second quarter.

Revenue for the six months ended June 30, 2020 was $7.8 million, a decrease of $6.7 million (47%) compared to $14.5 million for the previous year. The DTC business accounted for 91% of the first six months of 2020 revenues and the B2B accounted for 9% compared to the prior year with 97% revenue from DTC and 3% revenue from the B2B segment. Gross Revenue before discounts was $9.9 million for the six months ended June 30, 2020 compared to $15.9 million in the previous period or 37% lower. The lower net revenue reflected a more competitive market for online CBD sales in the current period and the Company's discounts increased from an average of 8% for the six months ended June 30, 2019 to an average of 21% six months ended June 30, 2020. The impact from the COVID-19 pandemic also impacted online competition as competitors that generated a material amount of their sales from retail stores become more aggressive online to offset a decline in those revenues due to store closures. The Company's B2B sales increased by 100% as the Company successfully expanded its sales into a leading US pharmacy chain during the second quarter.

Cost of sales

$US millions	**Three months ended June 30**		**Six months ended June 30**	
	2020	**2019**	**2020**	**2019**
Cost of Sales	**$ 1.4**	$ 3.0	**$ 2.7**	$ 4.8
Product costs	0.9	1.8	1.7	3.0
Merchant Processing Fees	0.2	0.6	0.5	0.9
Fulfillment Costs	0.3	0.6	0.5	0.9

Cost of sales for the three months ended June 30, 2020 was $1.4 million, a decrease of $1.6 million (53%) compared to $3.0 million for the previous year. The 53% decrease in cost of sales was driven by the decrease in revenues for the Company. The major components of cost of sales are product cost, merchant processing fees and fulfillment and delivery costs. Product costs accounted for 67%, merchant processing fees accounted for 17% and fulfillment and delivery costs accounted for 16% of cost of sales for the three months ended June 30, 2020 compared to the previous year (Product costs 61%, merchant processing fees accounted for 20% and fulfillment and delivery costs accounted for 19%). Product costs can vary directly based on the crop price of hemp and the CBD derivatives from those crops. Merchant processing fees can be affected by the risk perceived of the CBD industry as well as how well a company can manage its customers data security and fraud. Fulfillment costs can be affected by a material increase in delivery costs with the main courier companies.

Cost of sales for the six months ended June 30, 2020 was $2.7 million, a decrease of $2.1 million (44%) compared to $4.8 million for the previous year. The 44% decrease in cost of sales was driven by the decrease in revenues for the Company in the current period compared to the same time last year. The major components of cost of sales are product cost, merchant processing fees and fulfillment and delivery costs. Product costs accounted for 63%, merchant processing fees accounted for 17% and fulfillment and delivery costs accounted for 20% of cost of sales for the six months ended June 30, 2020 compared to the previous year (Product costs 63%, merchant processing fees accounted for 19% and fulfillment and delivery costs accounted for 18%). Product costs can vary directly based on the crop price of hemp and the CBD derivatives from those crops. Merchant processing fees can be affected by the risk perceived of the CBD industry as well as how well a company can manage its customers data security and fraud. Fulfillment costs can be affected by a material increase in delivery costs with the main courier companies.

Gross Profit

$US millions	**Three months ended June 30**		**Six months ended June 30**	
	2020	**2019**	**2020**	**2019**
Gross Profit	**$ 2.6**	**$ 6.1**	**$ 5.0**	**$ 9.7**
% Sales	**65%**	67%	**65%**	67%

Gross Profit for the second quarter ended June 30, 2020 was $2.6 million a decrease of $3.5 million (57%) compared to $6.1 million for the previous year. The 57% decrease in gross profit in 2020 can be attributed to the decrease in revenue and the factors described in the revenue section for the second quarter.

Gross Profit for the six months ended June 30, 2020 was $5.0 million a decrease of $4.7 million (48%) compared to $9.7 million for the previous year. The 48% decrease in gross profit in 2019 can be attributed to the decrease in revenue and the factors described in the revenue section for the six months ended June 30, 2020.

Expenses

$US millions	**Three months ended June 30**		**Six months ended June 30**	
	2020	**2019**	**2020**	**2019**
Expenses	**$ 2.2**	$ **3.4**	**$ 4.5**	$ 6.3
Marketing	**1.2**	2.7	**2.7**	4.4
Salaries	**0.3**	0.1	**0.7**	0.3
Professional Fees	**0.5**	0.3	**0.7**	0.4
Customer Service	**0.1**	0.1	**0.1**	0.2
Travel	**0.0**	0.0	**0.0**	0.1
Allowance for Bad Debt (Recoveries)	**0.0**	0.0	**0.0**	0.6
Other Gen & Admin	**0.1**	0.2	**0.3**	0.2

PureKana expenses for the three months ended June 30, 2020 were $2.2 million, a reduction of $1.2 million (35%) compared to the prior period of $3.4 million. Marketing fees accounted for $1.2 million or 55% of the second quarter 2020 expenses compared to $2.7 million in previous period (80%). Salaries accounted for $0.3 million or 14% of second quarter 2020 expenses compared to $0.1 million in previous period (3%). Professional fees which includes consulting, audit and legal services accounted for $0.5 million or 23% of second quarter 2020 expenses compared to $0.3 million in previous period (9%). Professional fees were up year-over-year due to the fees associated with taking PureKana public ($0.3 million). Customer service payments accounted for $0.1 million or 5% of second quarter 2020 expenses compared to $0.0 million in previous period (1%). Other general and administration expenses accounted for $0.1 million or 5% of second quarter 2020 expenses compared to $0.2 million in previous period (6%).

PureKana expenses for the six months ended June 30, 2020 were $4.5 million, a reduction of $1.8 million (29%) compared to the prior period of $6.3 million. Marketing fees accounted for $2.7 million or 60% of six-month 2020 expenses compared to $4.4 million in previous period (70%). Salaries accounted for $0.7 million or 16% of six-month 2020 expenses compared to $0.3 million in previous period (5%). Professional fees which includes consulting, audit and legal services accounted for $0.7 million or 16% of six-month 2020 expenses compared to $0.4 million in previous period (6%). Customer service payments accounted for $0.1 million or 2% of six-month 2020 expenses compared to $0.2 million in previous period (3%). Other general and administration expenses accounted for $0.0 million or 1% of six-month 2020 expenses compared to $0.6 million in previous period (10%).

Net Income

$US millions	**Three months ended June 30**		**Six months ended June 30,**	
	2020	**2019**	**2020**	**2019**
Net Income	**$ 0.3**	$ 2.7	**$ 0.5**	$ 3.5

Net income for the three months ended June 30, 2020 was $0.3 million a decrease of $2.4 million compared to the prior period ($2.7 million). The $2.4 million decrease in net income was attributable to (1) a decrease in expenses of $1.2 million which was offset by (2) decrease in gross profit of $3.6 million.

Net income for the six months ended June 30, 2020 was $0.5 million a decrease of $3.0 million compared to the prior period ($3.5 million). The $3.0 million decrease in net income was attributable to (1) a decrease in expenses of $1.7 million which was offset by (2) decrease in gross profit of $4.7 million.

LIQUIDITY & CAPITAL RESOURCES

Assets:	**June 30, 2020**	December 31, 2019
Cash and cash equivalents	**$ 1.6**	$ 1.1
Accounts Receivable	**0.1**	0.9
Inventory	**1.0**	1.3
Deposits and Prepaid Expenses	**0.3**	0.3
Long term assets	**0.1**	0.1
Total Assets	**3.1**	3.7

Liabilities:

Current Liabilities	**$**	**0.7**	$	1.2
Long-Term Liabilities		**0.2**		0.1
Total Liabilities		**0.9**		1.3
Working Capital	**$**	**2.3**	$	2.3

The Company's primary liquidity and capital requirements are for inventory and general corporate purposes. The Company currently has a cash balance of $1.6 million at June 30, 2020 and along with cash flows from operations, will provide capital to support the growth of the business and for general corporate purposes.

The Company's working capital was $2.3 million for the period ending June 30, 2020 compared to $2.3 million as at December 31, 2019. The Company has a loan of $0.1 million that it secured under the PPP program of the Federal Government. The Company has since applied for loan forgiveness under this same program. The Company's cash on hand was comparable at $1.6 million as of June 30, 2020 compared to $1.3 million as at December 31, 2019. The Company has sufficient cash flow operations to support its operations with some room for additional sales growth. The Company continues to focus on improving payment terms with its key vendors as another key initiative to maintain and improve its positive working capital position.

The Company's ability to fund operating expenses will depend on its future operating performance which will be affected by general economic, financial, regulatory, FDA, and other factors including factors beyond the Company's control (See "*Risk and Uncertainties*").

Management continually assesses liquidity in terms of the ability to generate sufficient cash flow to fund the business. Net cash flow is affected by the following items: (i) operating activities, including the level of amounts receivable, accounts payable, accrued liabilities and unearned revenue and deposits; (ii) investing activities (iii) financing activities.

Cash flow: Three months ended June 30, 2020 and 2019.

Cash generated from operating activities was $0.4 million in the three-month period ended June 30, 2020, compared to $2.6 million generated from operating activities in the same period of 2019. This decrease of $2.2 million in cash generated from operating activities was the result of (1) a decrease in cash generated in operating activities before the impact of non-cash working capital of $2.4 million which was offset by (2) an increase in cash generated by non-cash working capital of $0.2 million for the three months ended June 30, 2020, compared to the comparative 2019 period.

Cash used by investing activities was $0.0 million during the second quarter of 2020, compared to cash used by investing activities of $0.0 million in the same period in 2019.

Cash used in financing activities was $0.1 million in the second quarter of 2020 compared to cash used of $2.3 million in the same period in 2019 or a decrease of $2.4 million. The $2.4 million net increase in cash used in financing activities in the second quarter of 2020, compared to the prior period, was due to (1) decreases in distributions to members of the Company of $2.3 million and increases from the Company's PPP loan of $0.1 million.

Cash generated from operating activities was $1.1 million in the six-month period ended June 30, 2020, compared to $3.9 million generated from operating activities in the same period of 2019. This decrease of $2.8 million in cash generated from operating activities was the result of (1) a decrease in cash generated in operating activities before the impact of non-cash working capital of $3.6 million which was offset by (2) an increase in cash generated by non-cash working capital of $0.9 million for the six months ended June 30, 2020, compared to the comparative 2019 period.

Cash used by investing activities was $0.0 million for the six months ended June 30, 2020, compared to cash used by investing activities of $0.0 million in the same period in 2019.

Cash used in financing activities was $0.6 million for the six months ended June 30, 2020 compared to cash used of $3.1 million in the same period in 2019 or a decrease of $2.5 million. The $2.5 million net increase in cash used in financing activities for the six months ended June 30, 2020, compared to the prior period, was due to (1) decreases in distributions to members of the Company of $2.4 million and increases from the Company's PPP loan of $0.1 million.

FINANCIAL RESOURCES

Cash and cash equivalents was $1.6 million as of June 30, 2020, compared to $1.1 million as of December 31, 2019. Working capital was $2.3 million as of June 30, 2020 compared to $2.3 million as of December 31, 2019.

Current assets as at June 30, 2020 were $3.0 million including $1.6 million in cash, $0.1 in accounts receivable, $1.0 million of inventory and $0.3 million in prepaid expenses and reflects a $0.6 million decrease over the balance as of December 31, 2019. Current liabilities as at June 30, 2020 were $0.7 million consisting primarily of accounts payable and accrued liabilities and reflect a decrease of $0.5 million over the balance as of December 31, 2019.

The Company's working capital and working capital requirements fluctuate from quarter to quarter depending on, among other factors, key consumer holidays (second fourth quarter each year), new product introductions and vendor lead times. The Company's principal working capital needs include accounts receivable, inventory, prepaid expenses, and accounts payable.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

Key management personnel include those persons having the authority and responsibility of planning, directing, and executing the activities of the Company. The Company has determined that its key management personnel consist of the Company's officers.

Key management compensation, including benefits, in the second quarter of 2020 was $68,410 ($- 2019).

Key management compensation, including benefits, for the six months ended June 30, 2020 was $139,757($- 2019).

QUARTERLY RESULTS

USD Millions	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenue	4.2	5.6	5.4	9.1	6.0	4.8	3.8	4.0
Gross Profit	2.4	3.6	3.7	6.1	4.1	2.9	2.5	2.6
Expenses	1.3	2.9	2.9	3.4	2.7	2.0	2.3	2.3
Net Income	1.0	0.7	0.8	2.7	1.4	0.9	0.2	0.3

The Company has seen significant growth in its revenues since the first quarter of 2018. Gross profit and net income have also increased significantly since the first quarter of 2018. The online CBD market experienced increased competition in the second half of 2019 resulting in lower revenues for the third and fourth quarter of 2019. The impact of the COVID-19 pandemic has also impacted the Company's revenues in 2020. Our planned expansion into the B2B segment of the market through sales top retailers has been slowed due to retail store closers and retailer's general hesitancy to introduce new CBD brands onto their shelves for the first six months of 2020. The Company has been able to maintain healthy gross margins during the eight quarters as it has one of the premium brands available in the US CBD marketplace. The Company has achieved positive net income for each of the eight quarters for the period July 1, 2018 through June 30, 2020.

PROPOSED TRANSACTION

The Company entered into a business combination agreement (the "**Business Combination Agreement**") dated November 20, 2020 among AF1 Capital Corp. ("**AF1**"), Heavenly Rx Ltd. ("**Heavenly**"), Heavenly Rx, LLC, Cody Alt and Jeff Yauck, pursuant to which AF1 has agreed to acquire Heavenly's indirectly-held 50.1% equity interest in the Company. Pursuant to the Business Combination Agreement, AF1 and Heavenly agree to effect the combination of the respective businesses and assets by way of a triangular merger ("**Merger**") among AF1, a Delaware subsidiary of AF1 and a Delaware subsidiary of Heavenly in accordance with Delaware law.

As a result of the Merger, AF1 will indirectly hold 50.1% of the Company's outstanding units. Following completion of the Merger, AF1 will change its name to "PureK Holdings Corp." and the business of PureKana will essentially become the business of AF1, as the resulting issuer. The transaction is subject to TSX Venture Exchange approval and other conditions.

NON-GAAP FINANCIAL MEASURES

Adjusted Earnings before Interest tax and depreciation (EBITDA)

$US millions	Three months ended June 30		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Net Income	**$ 0.3**	$ 2.7	**$ 0.5**	$ 3.5
Depreciation & Amortization	**0.0**	-	**0.0**	-
Interest Expenses	**0.0**	-	**0.0**	-
Income Taxes	**-**	-	**-**	-
EBITDA	**0.3**	2.7	**0.5**	3.5
% Sales	**8%**	30%	**6%**	24%
Transaction costs to take the company public	**0.3**	-	**0.3**	-
Adjusted EBITDA	**0.6**	2.7	**0.8**	3.5
% Sales	**15%**	30%	**10%**	24%

Adjusted EBITDA for the three months ended June 30, 2020 was $0.6 million a decrease of $2.1 million compared to the prior period ($2.7 million). The $2.1 million decrease in Adjusted EBITDA was attributable to (1) a decrease in expenses of $1.3 million which was offset by (2) decrease in gross profit of $3.4 million.

Adjusted EBITDA for the six months ended June 30, 2020 was $0.8 million a decrease of $2.7 million compared to the prior period ($3.5 million). The $2.7 million decrease in Adjusted EBITDA was attributable to (1) a decrease in expenses of $2.4 million which was offset by (2) decrease in gross profit of $5.1 million.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

The Company recognizes revenue when products are shipped, and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include; allowances for doubtful accounts, inventory, and provisions for other contingencies.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year include the following:

Inventory

The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions, including forecasted demand compared to quantities on hand, as well as other factors such as potential excess or aged inventories based on product shelf life, and other factors that affect inventory obsolescence.

Leases

The application of IFRS 16 "Leases" requires significant judgements and certain key estimations to be made. Critical judgements required in the application of IFRS 16 include the following (i) identifying whether a contract includes a lease; (ii) determining whether it is reasonably certain that an extension or termination option will be exercised; (iii) determining whether variable payments are in-substance fixes; (iv) establishing whether there are multiple leases in an arrangement; and (v) determining the stand-alone selling price of lease and non-lease components. Key sources of estimation uncertainty in the application of IFRS 16 include the following: (i) estimating the lease term; (ii) determining the appropriate rate to discount lease payments; and (iii) assessing whether a right-of-use (RoU) asset is impaired.

On January 1, 2019, the Company adopted IFRS 16 Leases ("**IFRS 16**"). The Company adopted IFRS 16 using the modified retrospective approach and therefore, the comparative information has not been restated and continues to be reported under IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

Policy applicable from January 1, 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company has designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of real estate, in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable before January 1, 2019

There are no lease contracts prior to January 1, 2019.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities in the liabilities section in the balance sheet.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

FUTURE ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual periods beginning on or after January 1, 2022. Adoption thereof is not expected to have a material impact on the presentation of the Company's financial statements.

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, credit card processor, accounts payable and accrued liabilities, and lease liability.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below.

Fair value of financial assets and liabilities

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities,

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (i.e.: As prices) or indirectly (i.e.: derived from prices); and

Level 3: Inputs that are not based on observable market data.

The fair value of cash is measured at cost. The carrying values of cash, accounts receivable, credit card processors, accounts payable and accrued liabilities, and lease liability approximate their respective fair values due to the short-term nature of these instruments.

The following table summarizes the Company's financial instruments at June 30, 2020:

	Financial assets at amortized cost	Other financial liabilities	Total
Financial Assets:			
Cash	$ 1,556,528	$ -	$ 1,556,528
Accounts receivable, credit card processor	74,155	-	74,155
	$ 1,630,683	$ -	$ 1,630,683
Financial Liabilities:			
Accounts payable and accrued liabilities	$ -	$ 705,580	$ 705,580
Lease Liability	-	86,381	86,381
Loan Payable		$ 109,500	109,500
	$ -	$ 901,461	$ 901,461

The following table summarizes the Company's financial instruments at December 31, 2019:

	Financial assets at amortized cost	Other financial liabilities	Total
Financial Assets:			
Cash	$ 1,061,746	$ -	$ 1,061,746
Accounts receivable, credit card processor	864,938	-	864,938
	$ 1,926,684	$ -	$ 1,926,684
Financial Liabilities:			
Accounts payable and accrued liabilities	$ -	$ 1,136,151	$ 1,136,151
Lease Liability	-	128,727	128,727
	$ -	$ 1,264,878	$ 1,264,878

Financial instrument risk management

The Company's financial instrument exposures and the impact on its financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a customer's or counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash is held with reputable United States financial institutions, from which management believes the risk of loss is remote. The Company's maximum credit risk exposure is equivalent to the carrying value of these instruments. The Company has, and intends, to adhere strictly to the state statutes and regulations in its operations.

As at June 30, 2020, the Company’s aging of accounts receivable, credit card processor is as follows:

Days		June 30, 2020
0-30[(1)]	$	74,155
31-90		-
90-180		-
> 180		-
	$	**74,155**

Note:
(1) Balance was collected in full subsequent to the period ended June 30, 2020.

As at December 31, 2019, the Company’s aging of accounts receivable, credit card processor is as follows:

Days		December 31, 2019
0-30[(1)]	$	864,938
31-90		-
90-180		-
> 180		-
	$	864,938

Note:
(1) Balance was collected in full subsequent to the period ended December 31, 2019.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2020 the Company’s financial liabilities consist of accounts payable and accrued liabilities, and lease liability, which have contractual maturities within one year. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis. The Company regards liquidity risk to be low as it has sufficient working capital to for at least the next twelve months.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company holds cash in accounts with variable interest rates, and currently does not carry variable interest-bearing debt. It is management’s opinion that the Company is not exposed to significant interest rate risk.

OUTSTANDING SHARE DATA

As at June 30, 2020, the Company had one class of units of ownership, of which there were 100,000 company units issued and outstanding. There were no other securities of the Company outstanding as at June 30, 2020.

RISKS AND UNCERTAINTIES

The Company's performance and results of operations are subject to various risks and uncertainties described under the heading "Risk Factors" in the filing statement of AF1 Capital Corp. dated November 20, 2020. Prospective investors should carefully consider the specific risk factors discussed before making an investment decision. Additional risks and uncertainties not currently known to the Company may also have an adverse effect on the Company's business. If any of the risks discussed actually occur, the Company's business, financial condition, capital resources, and results or future operations could be materially adversely affected.