PUREK HOLDINGS CORP.

(FORMERLY AF1 CAPITAL CORP.)

Management's Discussion and Analysis

For the year ended December 31, 2020

(Expressed in United States dollars unless otherwise specified)

Table of Contents

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is intended to help the reader understand PureK Holdings Corp. (formerly AF1 Capital Corp.) ("PureK", "we", "our" or the "Company"), our operations, financial performance, and current and future business environment. This MD&A is intended to supplement and complement the consolidated financial statements and notes thereto prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended December 31, 2020. This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2020, which are available on the SEDAR website at www.sedar.com.

This MD&A is prepared as of April 30, 2021. All dollar amounts in this MD&A are expressed in thousands of United States dollars ("$", "US$" or "US dollar"), unless otherwise specified. Canadian dollars are referred to as "CA$".

Additional information relating to the Company is available on SEDAR at www.sedar.com.

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

The Company was incorporated by Certificate of Incorporation issued pursuant to the provisions of the British Columbia Business Corporations Act on March 19, 2018 and changed its name from AF1 Capital Corp. to PureK Holdings Corp. on December 8, 2020. The Company is listed on the TSX Venture Exchange (the "Exchange") under the symbol "PKAN".

The Company is an international omni-channel platform with diversified assets in the emerging plant-based and holistic wellness consumer product categories. The Company focuses on innovation for the informed Millennial and Generation Z generations in the rapidly growing plant-based, natural, and clean ingredient space. The Company also focuses on expansion into high-growth consumer product categories including CBD products, plant-based food and beverage, and the global pet care and skin care industries. The head office and the registered address of the Company are 206-595 Howe Street Vancouver, British Columbia V6C 2T5.

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 as the plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more 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 offers a diverse 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 independent retailers. 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. The Company has focused on brand building since its inception and currently has one of the leading positions with social media following of its brand in the US. The Company 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 the Company a with an ability to scale its business without significant need for capital investment. The Company has been able to quickly develop its revenues since its inception as result of its agile partnership model and below benchmark fixed costs.

- **Acquisition of PureKana, LLC ("PureKana")**

On November 20, 2020, the Company entered into a business combination agreement with Heavenly Rx Ltd. ("Heavenly"), Heavenly Rx, LLC ("Heavenly Subco"), Purekana, Cody J. Alt and Jeff Yauck (the "PureKana Founders") to acquire 50.1% equity interest of PureKana, which was indirectly held by Heavenly (the "Transaction"). The Transaction was completed on December 8, 2020.

In connection with the Transaction:

- the Company amended its articles and notice of articles to create a series of convertible preferred shares (the "Series 1 Preferred Shares");
- the Company completed a share consolidation on the basis of one post-consolidation common share for forty pre-consolidation common shares;
- the Company merged with a subsidiary of Heavenly which holds the 50.1% equity interest in PureKana and the former Heavenly security holders received 12,000,000 post-consolidation and post-Stock Split (as defined below) common shares of the Company in exchange for membership units of PureKana;
- the Company assumed Heavenly's obligation to pay the PureKana Founders $22,500,000 via issuance of 8,454,375 post-consolidation and post-Stock Split common shares;
- the Company assumed the secured debts in the aggregate principal amount plus accrued interest of $15,134,298 payable to the PureKana Founders and repaid $8,200,000 of the outstanding aggregate principal amount and interest accrued thereon through the issuance of an aggregate of 1,025,000 Series 1 Preferred Shares to the PureKana Founders;
- the Company issued 187,500 post-consolidation and post-Stock Split common shares with a fair value of $637,063 as the finder's fees;
- the Company issued 22,500 agent's warrants (post Stock Split) with a fair value of $52,933. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of CA$1.33 at any time prior to January 29, 2021;
- the Company issued 37,500 post-consolidation options (post-Stock Split) with a fair value of $92,089 to replace the outstanding options previously issued by PureK. Each option entitles the holder to purchase one common share of the Company at an exercise price of CA$1.33 at any time prior to December 11, 2021.

- **Acquisition of No B.S. Life, LLC ("No B.S. Skincare")**

On December 31, 2020, the Company and PureKana entered into a binding letter of intent (the "No B.S. LOI") with DTC Brands, LLC ("DTC") to acquire all of the outstanding membership interests of No B.S. Life, LLC ("No B.S. Skincare"), an industry-leading clean-formula skincare and beauty company.

Under the terms of the acquisition, the Company and PureKana acquired all of the issued and outstanding membership units of No B.S. Skincare, with 65% of the purchase price to be paid by the Company and 35% to be paid by PureKana, with resulting proportional ownership interests (the "Acquisition of No B.S.").

The Company issued $4 million payable in unsecured convertible debentures, with 3.25% non-compounding interest, payable in cash or common shares of the Company at the discretion of the Company, with a maturity date of twenty-four months following the date of closing.

Under the terms of the convertible debentures, the noteholders have the option, on a monthly basis after the issuance of the convertible debentures, to convert any portion thereof (including accrued interest on such portion) into common shares of the Company, provided that the noteholders will not hold, at any time, in excess of 7% of the current issued and outstanding common shares of the Company. Any portion or all of the convertible debentures which have not been converted into common shares will be paid in cash at the maturity date. The conversion price of the convertible debentures is the higher of $10.00 in Canadian dollar ("CA$") and the volume weighted average price of the Company's shares determined based on the 15 trading days immediately preceding the date of notice of conversion (the "VWAP").

In addition, a cash payment of $500,000 will be made within 6 months of the date of closing. Current members of DTC will be eligible to receive earnout compensation of $1 million if No B.S. Skincare's revenues and earnings before interest, taxes, depreciation, and amortization ("EBITDA") equal or exceed $6 million and $360,000, respectively, in the fiscal year 2021, and/or $2.5 million if No B.S. Skincare's revenues and EBITDA exceed $8 million and $480,000, respectively, in the fiscal year 2022.

The Acquisition of No B.S. was completed on February 18, 2021.

- **Acquisition of Nirvana Group, LLC ("Nirvana")**

On February 17, 2021, the Company entered into a definitive agreement ("the Nirvana Agreement") to acquire Nirvana (the "Acquisition of Nirvana"), a Florida-based company specializing in the development, manufacturing, and distribution of all-natural pet wellness products and which includes the BudaPets brand.

Under the terms of the Nirvana Agreement, the Company will acquire all of the issued and outstanding membership units of Nirvana. The Company will issue $1.5 million payable in unsecured convertible debentures, with 3.25% non-compounding interest per annum, with a maturity date that is twenty-four months following the date of closing. Current members of Nirvana will have the option, on a monthly basis, to convert any portion of the convertible debentures into common shares of the Company at a price equal to the higher of CA$3.50 or the VWAP. Any portion or all of the convertible debentures which have not been so converted into common shares will be payable in cash at the maturity date.

In addition, current members of Nirvana will be eligible to receive earnout compensation of $500,000, payable in common shares of the Company, if Nirvana's net revenue equals or exceeds $1 million for the 2021 fiscal year, and an additional $1 million payable in common shares of the Company if Nirvana's net revenue exceeds $2.5 million in the fiscal year 2022.

The Acquisition of Nirvana was completed on April 28, 2021.

PROPOSED TRANSACTIONS

- **TRU Brands Inc. ("Tru Brands")**

On March 3, 2021, the Company entered into a binding term sheet (the "Tru Brands LOI") to acquire 100% of the issued and outstanding shares of Tru Brands Inc. ("Tru Brands") by issuing the common shares of the Company with a total market value of $7,500,000 (the "Purchase Price"). Tru Brands is a health and wellness brand specializing in nutritious snacks for women.

TRU Brands products are available at Costco Canada East locations in Ontario, Quebec, Nova Scotia, New Brunswick, and Newfoundland and Labrador. Tru Brands also plans to expand the sales channels, including the expansion commitments into approximately 800 Shoppers Drug Mart locations and Rexall, Metro, and Loblaws locations. Additionally, TRU Brands expects to launch TRUWOMEN.CA, its own consumer-facing online store in Canada, in April.

The Purchase Price is determined based on the share price of the Company equal to the ten-trading day volume weighed average trading price of the shares on the Exchange prior to the closing date of the transaction.

Closing of the acquisition is subject to negotiation of a definitive agreement and customary closing conditions, including approval of the TSX Venture Exchange.

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 outbreak is unknown at this time, as is the efficacy of the response measures as well as the evolution of a new variant of COVID-19 that is more contagious, has more severe effects or is resistant to treatments or vaccinations. It is impossible to forecast the duration and full scope of the economic impact of COVID-19 and its variant strains 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 food or 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 "Prior Drug Exclusion "). The Company believes there are significant arguments against this position in that all conditions of the applicable statute must be met before the Prior Drug Exclusion applies. Importantly, there have been recent regulatory and legislative developments, described in more detail under the heading "Regulatory Framework" in the Company's filing statement dated November 20, 2020, which may provide a pathway for allowing hemp-derived compounds, such as CBD, in foods and dietary supplements. A copy of the filing statement may be viewed under the Company's SEDAR profile at www.sedar.com.

HIGHLIGHTS

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 several 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. In addition to our strong online platform, during the third quarter of 2020, PureKana distributed in the food, drug, and convenience channels.

PureKana launches AM/PM products

The Company launched key innovation with its new active ingredient product line in May 2020. This product line is intended to bring increased efficacy to its CBD products for its customer base. PureKana's AM capsules are formulated with a proprietary natural energy blend designed to boost you 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. During the third quarter of 2020, PureKana continue its expansion into active ingredients to drive efficacy. Innovation offerings are ready for launch in the need state areas of sleep, energy, pain, calm, wellness, and immunity.

PureKana obtained a $10 million financing facility

On December 11, 2020 (the "Funding Date"), the Company through its subsidiary PureKana entered into a loan agreement (the "Loan") with an amount of $10,000,000 (the "Loan Amount"). The Loan is secured with all of the assets of the Company and guaranteed by the members of the Company. The Loan matures on December 11, 2025 (the "Maturity Date").

New sales platform of No B.S. Skincare products

From February 2021, all No B.S. Skincare products, including its Award-Winning Caffeine Eye Cream and Retinol Night Cream, Charcoal Peel-Off Mask, Moisturizers, Serums, Toner, Cleanser, and Acne Patches, are available through the website of major retailer Targets.

Stock Split

On February 22, 2021, the Company implemented a 3 for 1 forward split of the Company's issued and outstanding common shares. The number of shares and relevant information including but not limited to the share price, number of warrants and options and exercise price per warrant and option presented in this MD&A had been adjusted accordingly.

PureKana entered into a partnership with Chemesis International Inc. ("Chemesis")

On April 13, 2021, PureKana entered into a brand partnership with Chemesis, a leading cannabis and CDB retailer, under which PureKana's industry-leading CBD products will become available at hundreds of proprietary Chemesis kiosks throughout the United States.

PureKana announces name change to "Simply Better Brands Corp."

On April 29, 2021, the Company announced that it will change its name to "Simply Better Brands Corp." effective May 3, 2021. The Company's common shares will continue trading on the TSX Venture Exchange under the new symbol "SBBC" commencing at market open on May 3, 2021.

SELECTED FINANCIAL INFORMATION

The figures in the following table are based on the audited consolidated financial statements of the Company which were prepared in accordance with IFRS as issued by the International Accounting Standards Board.

	For the year ended		
expressed in millions except for earnings (loss) per share	**December 31, 2020 $**	**December 31, 2019 $**	**December 31, 2018 $**
Revenue	13.8	25.3	15.5
Gross margin (in $)	9.0	16.8	10.0
Gross margin (in %)	65%	66%	60%
Operating expenses	7.6	11.0	6.2
Other income (expenses)	(3.3)	-	0.1
Net income (loss)	(2.0)	5.8	3.9
Earnings (loss) per share			
- Basic	(0.1)	15.4	10.4
- Diluted	(0.1)	15.4	10.4

expressed in millions except for dividend per share	**December 31, 2020 $**	**December 31, 2019 $**	**December 31, 2018 $**
Total assets	12.1	3.7	3.3
Total non-current financial liabilities	21.3	0.1	-
Dividend per share	-	-	-

The decrease in revenue during the year ended December 31, 2020, compared to the year ended December 31, 2019, was mainly due to the increase in competition of online CBD sales. The increase in revenue during the year ended December 31, 2019, compared to the year ended December 31, 2018, was mainly due to the increase in consumer demand for CBD products and the Company's proprietary direct marketing strategies and PureKana's brand recognition by consumers. The change in gross profit in the presented years is the result of the change in revenue. The gross margin percentage of the presented years is relatively consistent. The decrease in operating expenses during the year ended December 31, 2020, compared to the year ended December 31, 2019, was primarily due to the decrease in customer service support, marketing expenses, and professional fees, which was partially offset by the increase in salaries and wage. The increase in operating expenses during the year ended December 31, 2019 compared to the year ended December 31, 2018, was primarily due to the increase in marketing expenses and customer service support due to the increase in sales. For other income (expenses), the Company recognized $3M in listing expenses due to the Transaction during the year ended December 31, 2020. The Company also recognized a loss on remeasurement of derivative liability with an amount of $0.3M during the year ended December 31, 2020. No such gain or loss was recognized in both years ended December 31, 2019 and 2018.

SUMMARY OF QUARTERLY RESULTS

	Three months ended			
expressed in millions except for earnings (loss) per share	**December 31, 2020** **$**	**September 30, 2020** **$**	**June 30, 2020** **$**	**March 31, 2020** **$**
Revenue	3.1	2.9	4.0	3.8
Gross profit	2.1	1.8	2.6	2.5
Net income (loss)	(2.4)	(0.1)	0.3	0.2
Earnings (loss) per share				
- Basic	(3.3)	(0.8)	2.4	1.6
- Diluted	(3.3)	(0.8)	2.4	1.6

	Three months ended			
expressed in million except for earnings (loss) per share	**December 31, 2019** **$**	**September 30, 2019** **$**	**June 30, 2019** **$**	**March 31, 2019** **$**
Revenue	4.8	6.0	9.1	5.4
Gross profit	2.9	4.1	6.1	3.7
Net income (loss)	0.9	1.4	2.7	0.8
Earnings (loss) per share				
- Basic	2.7	3.6	7.1	2.0
- Diluted	2.7	3.6	7.1	2.0

The growth in revenue in the first to third quarter of 2019 was mainly due to the increase in consumer demand for CBD products and the Company's proprietary direct marketing strategies and PureKana's brand recognition by consumers. The decrease in revenue from the fourth quarter of 2019 to the fourth quarter of 2020 was mainly due to the increase in competition of online CBD sales as well as the negative impact of Covid 19 health crisis that negatively impacted offline sales as retailers were closed for a good portion of 2020 and reluctant to add new vendors to their existing CBD product SKU's. 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. In those presented quarter (except for the fourth quarter and third quarter of 2020), the Company has achieved positive net income. The net loss incurred for fourth quarter and third quarter of 2020 was mainly due to the listing expenses related to the Transaction. In the fourth quarter of 2020, the Company recognized a loss on remeasurement of derivative liability.

RESULTS OF OPERATIONS

The net loss for the fourth quarter of 2020 and the year ended December 31, 2020 was $2.4M and $2M, respectively, compared to net income of $0.9M and $5.8M for the fourth quarter of 2019 and the year ended December 31, 2019.

Revenue

	For the three months ended					
	December 31, 2020		December 31, 2019		Change in	
expressed in millions	$	%	$	%	$	%
Direct to consumer	2.9	94%	4.6	96%	(1.7)	-37%
Business to business	0.2	6%	0.2	4%	-	0%
	3.1	**100%**	**4.8**	**100%**	**(1.7)**	**-35%**

	For the years ended					
	December 31, 2020		December 31, 2019		Change in	
expressed in millions	$	%	$	%	$	%
Direct to consumer	12.7	92%	24.4	96%	(11.7)	-48%
Business to business	1.1	8%	0.9	4%	0.2	22%
	13.8	**100%**	**25.3**	**100%**	**(11.5)**	**-45%**

The Company's revenue is generated by two segments, Direct to Consumer ("DTC") and Business to Business ("B2B").

Revenue for the fourth quarter of 2020 was $3.1 million, of which $2.9 million (94%) and $0.2 million (6%) was generated from the DTC and B2B, respectively, compared to $4.8 million, of which $4.6 million (96%) and $0.2 million (4%) was generated from the DTC and B2B, in the fourth quarter of 2019. Gross revenue excludes sales discount for the fourth quarter of 2020 and 2019 was $4 million and $6.4 million, respectively. The Company's discount was decrease to an average of 22% in the fourth quarter of 2020 compared to 25% in the fourth quarter of 2019.

Revenue for the year ended December 31, 2020 was $13.8 million, of which $12.7 million (92%) and $1.1 million (8%) was generated from the DTC and B2B, respectively, compared to $25.3 million, of which $24.4 million (96%) and $0.9 million (4%) was generated from the DTC and B2B, for the year ended December 31, 2019. Gross revenue excludes sales discount for the year ended December 31, 2020 and 2019 was $17.4 million and $29.2 million, respectively. The Company's discount was increase to an average of 20% in the year ended December 31, 2020 compared to 14% in the year ended December 31, 2019.

The decrease in revenue of $1.7 million (35%) in the fourth quarter of 2020 and $11.5 million (45%) in the year ended December 31, 2020 was mainly due to the increase in competition of the online CBD sales as well as the negative impact of Covid 19 health crisis that negatively impacted offline sales as retailers were closed for a good portion of 2020 and reluctant to add new vendors to their existing CBD product SKU's.

Cost of goods sold

	For the three months ended					
	December 31, 2020		December 31, 2019		Change in	
expressed in millions	$	%	$	%	$	%
Product costs	0.6	60%	1.3	72%	(0.7)	-54%
Merchant processing fees	0.2	20%	0.3	17%	(0.1)	-33%
Fulfillment costs	0.2	20%	0.2	11%	-	0%
	1.0	**100%**	**1.8**	**100%**	**(0.8)**	**-44%**

	For the years ended					
	December 31, 2020		December 31, 2019		Change in	
expressed in millions	$	%	$	%	$	%
Product costs	3.0	62%	5.5	65%	(2.5)	-45%
Merchant processing fees	0.9	19%	1.4	16%	(0.5)	-36%
Fulfillment costs	0.9	19%	1.6	19%	(0.7)	-44%
	4.8	**100%**	**8.5**	**100%**	**(3.7)**	**-44%**

Cost of goods sold includes the product cost, merchant processing fees and fulfillment and delivery costs. Product costs may vary directly based on hemp's crop price and the CBD derivatives from the crops. Merchant processing fees may be affected by the CBD industry's risk and customer data security and fraud. Fulfillment costs are mainly driven by the delivery costs with the main courier companies.

Cost of goods sold for the fourth quarter of 2020 was $1 million (includes the product costs of $0.6 million (60%), merchant processing fees of $0.2 million (20%) and fulfillment costs of $0.2 million (20%)) compared to $1.8 million (includes the product costs of $1.3 million (72%), merchant processing fees of $0.3 million (17%) and fulfillment costs of $0.2 million (11%)) in the fourth quarter of 2019.

Cost of goods sold for the year ended December 31, 2020 was $4.8 million (includes the product costs of $3 million (62%), merchant processing fees of $0.9 million (19%) and fulfillment costs of $0.9 million (19%)) compared to $8.5 million (includes the product costs of $5.5 million (65%), merchant processing fees of $1.4 million (16%) and fulfillment costs of $1.6 million (19%)) in the year ended December 31, 2019.

The decrease in cost of goods sold of $0.8 million (44%) in the fourth quarter of 2020 and $3.7 million (44%) in the year ended December 31, 2020 was primarily due to the decrease in revenue.

Gross profit

	For the three months ended					
	December 31, 2020		December 31, 2019		Change in	
expressed in millions	**$**	**%**	**$**	**%**	**$**	**%**
Gross profit	2.1	67%	2.9	62%	(0.8)	-28%

	For the years ended					
	December 31, 2020		December 31, 2019		Change in	
expressed in millions	**$**	**%**	**$**	**%**	**$**	**%**
Gross profit	9.0	65%	16.8	66%	(7.8)	-46%

Gross profit for the fourth quarter of 2020 was $2.1 million (67%) compared to $2.9 million (62%) in the fourth quarter of 2019.

Gross profit for the year ended December 31, 2020 was $9 million (65%) compared to $16.8 million (66%) in the year ended December 31, 2019.

The decrease of gross profit of $0.8 million (28%) in the fourth quarter of 2020 and $7.8 million (46%) in the year ended December 31, 2020 was primarily due to the decrease in revenue.

The gross margin remains relatively constant during the fourth quarter of 2020 and 2019 and years ended December 31, 2020 and 2019.

Operating expenses

Followings are the breakdown of the major operating expenses in the presented period:

	For the three months ended					
	December 31, 2020		December 31, 2019		Change in	
*expressed in millions **	**$**	**%**	**$**	**%**	**$**	**%**
Bad debts recovery	-	0%	(0.8)	-40%	0.8	-100%
Customer service support	-	0%	0.2	10%	(0.2)	-100%
General and administrative expenses	0.1	6%	0.1	5%	-	0%
Marketing expense	0.9	56%	1.7	85%	(0.8)	-47%
Professional fees	0.2	13%	0.4	20%	(0.2)	-50%
Salaries and wages	0.4	25%	0.2	10%	0.2	100%
Other items **	-	0%	0.2	10%	(0.2)	-100%
	1.6	**100%**	**2.0**	**100%**	**(0.4)**	**-20%**

**Items in each presented period with a balance below $0.1M are either combined as "Other Items" or excluded from the table above.*
***Other items including items with a balance below $0.1M and rounding adjustment.*

	For the years ended				Change in	
	December 31, 2020		December 31, 2019			
expressed in millions *	$	%	$	%	$	%
Bad debts recovery	-	0%	(0.1)	-1%	0.1	-100%
Customer service support	0.2	2%	0.5	5%	(0.3)	-60%
General and administrative expenses	0.5	7%	0.4	4%	0.1	25%
Marketing expense	4.5	59%	8.1	73%	(3.6)	-44%
Professional fees	0.8	11%	1.2	11%	(0.4)	-33%
Salaries and wages	1.5	20%	0.7	6%	0.8	114%
Sales tax expense	-	0%	0.2	2%	(0.2)	-100%
Travel and entertainment	-	0%	0.1	1%	(0.1)	-100%
Other items **	0.1	1%	(0.1)	-1%	0.2	-200%
	7.6	**100%**	**11.0**	**100%**	**(3.4)**	**-31%**

**Items in each presented period with a balance below $0.1M are either combined as "Other Items" or excluded from the table above.*
***Other items including items with a balance below $0.1M and rounding adjustment.*

Operating costs for the fourth quarter of 2020 were $1.6 million, a decrease of $0.4 million (20%), compared to $2 million in the fourth quarter of 2019. The majority of the operating costs incurred in the fourth quarter of 2020 were marketing expenses of $0.9 million (56%), professional fees of $0.2 million (13%) and salaries and wages of $0.4 million (25%). The majority of the operating costs incurred in the fourth quarter of 2019 were marketing expenses of $1.7 million (85%), professional fees of $0.4 million (20%) and salaries and wages of $0.2 million (10%). In addition, in the fourth quarter of 2019, the Company recognized a bad debt recovery of $0.8 million (40%).

Compared to the fourth quarter of 2019, the decrease in marketing expenses of $0.8 million (47%) in the fourth quarter of 2020 resulted from the decrease in sales. The decrease in professional fees of $0.2 million (50%) was mainly due to the decrease in legal expenses incurred in the normal course of business. In addition, certain professional fees related to the Transaction were classified as listing expenses. The increase in salaries and wages of $0.2 million (100%) was mainly related to the increase in the company's full-time employees.

Operating costs for the year ended December 31, 2020, were $7.6 million, a decrease of $3.4 million (31%), compared to $11 million in the year ended December 31, 2019. The majority of the operating costs incurred in the year ended December 31, 2020, were marketing expenses of $4.5 million (59%), professional fees of $0.8 million (11%) and salaries and wages of $1.5 million (20%). The majority of the operating costs incurred in the year ended December 31, 2019, were marketing expenses of $8.1 million (73%), professional fees of $1.2 million (11%) and salaries and wages of $0.7 million (6%).

Compared to the year ended December 31, 2019, the decrease in marketing expenses of $3.6 million (44%) in the year ended December 31, 2020, resulted from the decrease in sales. The decrease in professional fees of $0.4 million (33%) was mainly due to the decrease in legal expenses incurred in the normal course of business. In addition, certain professional fees related to the Transaction were classified as listing expenses. The increase in salaries and wages of $0.8 million (114%) was mainly related to the increase in the company's full-time employees.

Other income (expenses)

Followings are the breakdown of the major operating expenses in the presented period:

	For the three months ended				Change in	
	December 31, 2020		December 31, 2019			
*expressed in millions **	$	%	$	%	$	%
Finance costs	(0.1)	4%	-	0%	(0.1)	100%
Loss on remeasurement of derivative liability	(0.4)	14%	-	0%	(0.4)	100%
Grant and other assistance	0.1	-4%	-	0%	0.1	100%
Listing expenses	(2.4)	86%	-	0%	(2.4)	100%
	(2.8)	**100%**	**-**	**0%**	**(2.8)**	**100%**

**Items in each presented period with a balance below $0.1M are either combined as "Other Items" or excluded from the table above.*

	For the years ended				Change in	
	December 31, 2020		December 31, 2019			
*expressed in millions **	$	%	$	%	$	%
Finance costs	(0.1)	3%	-	0%	(0.1)	100%
Loss on remeasurement of derivative liability	(0.4)	12%	-	0%	(0.4)	100%
Grant and other assistance	0.1	-3%	-	0%	0.1	100%
Listing expenses	(3.0)	91%	-	0%	(3.0)	100%
Other items **	0.1	-3%	-	0%	0.1	100%
	(3.3)	**100%**	**-**	**0%**	**(3.3)**	**100%**

**Items in each presented period with a balance below $0.1M are either combined as "Other Items" or excluded from the table above.*
***Other items including items with a balance below $0.1M and rounding adjustment.*

Finance costs
Finance costs of $0.1 million in the fourth quarter of 2020 and year ended December 31, 2020 was mainly related to the accretion of interest regarding the lease obligation, promissory notes, loan payable and preferred shares. No promissory notes, loan payable and preferred shares were issued in the year ended December 31, 2019.

Loss on remeasurement of derivative liability
The Company recognized a loss on remeasurement of derivative liability of $0.4 million in the fourth quarter of 2020 and the year ended December 31, 2020 pursuant to IFRS 9: *Financial Instruments*. The Company is required to remeasure the fair value of the derivative liability at each reporting period. Any changes in the derivative liability's fair value are recognized in the income statement as a gain or loss. The loss in the fourth quarter of 2020 and the year ended December 31, 2020 was mainly related to the decrease in share price of the Company's common shares. No such gain or loss was recognized in the fourth quarter of 2019 and the year ended December 31, 2019.

Grant and other assistance
During the year ended December 31, 2020, the Company received an unsecured loan in the amount of $0.1 million pursuant to the Paycheck Protection Program (PPP) administered by the United States Small Business Administration and authorized by the Keeping American Workers Employed and Paid Act, which is part of the CARES Act. Section 1106 of the Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the Paycheck Protection Program. The Company received an approval of the loan forgiveness subsequent to December

31, 2020; as a result, the Company recognized the PPA Loan as a grant and other assistance during the fourth quarter of 2020 and year ended December 31, 2020. No such income was recognized during the fourth quarter of 2019 and year ended December 31, 2019.

Listing expenses
Listing expenses of $2.4 million in the fourth quarter of 2020 and $3 million in the year ended December 31, 2020 was mainly related to the RTO transaction. The Company had accounted for this transaction as a reverse acquisition in accordance with IFRS 2: *Share-Based Payment*; as a result, any excess consideration paid for the Transaction was classified as listing expenses.

Earnings before Interest, Taxes, Depreciation, and Amortization ("EBITDA") and Adjusted EBITDA (Non-GAAP Measures)

EBITDA and Adjusted EBITDA are non-GAAP measures used by management that are not defined by IFRS. EBITDA and Adjusted EBITDA do not have a standardized meaning prescribed by IFRS and therefore may not be Comparable to similar measures presented by other issuers. Management believes that EBITDA and Adjusted EBITDA provide meaningful and useful financial information as these measures demonstrate the operating performance of business excluding non-cash charges.

The most directly comparable measure to EBITDA and Adjusted EIBTDA calculated in accordance with IFRS is net loss. The following table presents the EBITDA and Adjusted EBITDA for the fourth quarter 2020, the fourth quarter 2019, the year ended December 31, 2020 and the year ended December 31, 2019, and a reconciliation of same to net income (loss):

	For the three months ended			
	December 31, 2020	**December 31, 2019**	**Change in**	
*expressed in millions **	**$**	**$**	**$**	**%**
Net income (loss)	**(2.4)**	**1.0**	**(3.4)**	**-340%**
Add (less):				
Finance costs	0.1	-	0.1	100%
EBITDA	**(2.3)**	**1.0**	**(3.3)**	**-330%**
Add (less):				
Loss on remeasurement of derivative liability	0.4	-	0.4	100%
Grant and other assistance	(0.1)	-	(0.1)	100%
Listing expenses	2.4	-	2.4	100%
Adjusted EBITDA	**0.4**	**1.0**	**(0.6)**	**-60%**

**Items in each presented period with a balance below $0.1M are either combined as "Other Items" or excluded from the table above.*

	For the years ended			
	December 31, 2020	**December 31, 2019**	**Change in**	
*expressed in millions **	**$**	**$**	**$**	**%**
Net income (loss)	**(2.0)**	**5.8**	**(7.8)**	**-134%**
Add (less):				
Finance costs	0.1	-	0.1	100%
EBITDA	**(1.9)**	**5.8**	**(7.7)**	**-133%**
Add (less):				
Loss on remeasurement of derivative liability	0.4	-	0.4	100%
Grant and other assistance	(0.1)	-	(0.1)	100%
Listing expenses	3.0	-	3.0	100%
Adjusted EBITDA	**1.4**	**5.8**	**(4.4)**	**-76%**

**Items in each presented period with a balance below $0.1M are either combined as "Other Items" or excluded from the table above.*

LIQUIDITY AND CAPITAL RESOURCES

As at	**December 31, 2020**	**December 31, 2019**
*expressed in millions **	**$**	**$**
ASSETS		
Current assets		
Cash	8.3	1.1
Accounts receivable	0.2	0.9
Prepaid expenses	1.9	0.4
Loan receivable	0.4	-
Inventory	0.8	1.3
Other items **	0.1	(0.1)
Total current assets	**11.7**	**3.6**
Non-current assets	**0.4**	**0.1**
TOTAL ASSETS	**12.1**	**3.7**
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	(0.7)	(1.1)
Deferred revenue	-	-
Current portion of lease obligation	(0.1)	-
Current portion of promissory note	(3.7)	-
Other items **	-	(0.1)
Total current liabilities	**(4.5)**	**(1.2)**
Long term liabilities	**(21.3)**	**(0.1)**
TOTAL LIABILITIES	**(25.8)**	**(1.3)**
WORKING CAPITAL	**7.2**	**2.4**

**Items in each presented period with a balance below $0.1M are either combined as "Other Items" or excluded from the table above.*
***Other items including items with a balance below $0.1M and rounding adjustment.*

The Company's primary liquidity and capital requirements are for inventory and general corporate working capital purposes. The Company currently has a cash balance of $8.3 million as of December 31, 2020 coupled with cash flows from operations, will provide capital to support the planned growth of the business and for general corporate working capital purposes. The Company's working capital increased from 2.4 million for the year ended December 31, 2019 to $7.2 million for the year ended December 31, 2020. The Company continues to focus on improving its positive working capital position through a number of initiatives including better payment terms with key vendors, taking advantage of early payment options with its offline customers and negotiating lower costs with its key vendors.

The Company's working capital requirements fluctuate from period to period depending on, among other factors, key consumer holidays (second and 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.

PureKana is subject to externally imposed capital requirements in connection with its Loan. The Loan contains a financial covenant for the debt service coverage ratio (the "Debt Service Coverage Ratio") of Purekana LLC at the end of each calendar year during the term of the loan should not be less than 1.2. Pursuant to the Loan, the Debt Service Coverage Ratio is defined as the quotient of the Company's EBITDA for each annual reporting period divided by a ten-year amortization of the Loan Amount which is the sum of the interest expense for the reporting period and the scheduled principal payments made with respect to the Loan Amount for the reporting period. The Adjusted EBITDA is defined as the unadjusted EBITDA adjusted for any non-recurring, one-time, or irregular items. The Company is in compliance with these capital requirements as at December 31, 2020.

The Company's ability to fund operating expenses will depend on its future operating performance which will be affected by general economic, financial, regulatory, 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

	For the three months ended		
	December 31, 2020	**December 31, 2019**	**Change**
*expressed in millions **	**$**	**$**	**$**
Cash flow from operating activities	(0.1)	1.0	(1.1)
Cash flow used investing activities	(1.8)	-	(1.8)
Cash flow from (used in) financing activities	8.6	(2.2)	10.8
Increase (decrease) in cash	**6.7**	**(1.2)**	**7.9**

**Items in each presented period with a balance below $0.1M is presented as $nil.*

	For the years ended		
	December 31, 2020	**December 31, 2019**	**Change**
*expressed in millions **	**$**	**$**	**$**
Cash flow from operating activities	0.9	5.5	(4.6)
Cash flow used investing activities	(1.8)	-	(1.8)
Cash flow from (used in) financing activities	8.1	(5.7)	13.8
Increase (decrease) in cash	**7.2**	**(0.2)**	**7.4**

**Items in each presented period with a balance below $0.1M is presented as $nil.*

Cash flow from (used in) operating activities
Following is the breakdown of the cash flow from operating activities:

	For the three months ended		
	December 31, 2020	**December 31, 2019**	**Change**
*expressed in millions **	**$**	**$**	**$**
Net income (loss) for the period	(2.4)	1.0	(3.4)
Adjustments for items not affecting cash	1.6	(0.1)	1.7
Change in non-cash working capital	0.7	0.1	0.6
	(0.1)	**1.0**	**(1.1)**

**Items in each presented period with a balance below $0.1M is presented as $nil.*

Cash generated used in operating activities was $0.1 million in the fourth quarter of 2020, compared to cash flow generated from operating activities of $1.0 million in the fourth quarter of 2019. This increase of $1.1 million was the result of 1) a decrease in cash generated in operating activities before the impact of non-cash working capital of $1.7 million and (2) an increase in cash generated by non-cash working capital of $0.6 million in the fourth quarter of 2020.

	For the years ended		
	December 31, 2020	**December 31, 2019**	**Change**
*expressed in millions **	**$**	**$**	**$**
Net income (loss) for the year	(2.0)	5.8	(7.8)
Adjustments for items not affecting cash	2.3	0.1	2.2
Change in non-cash working capital	0.6	(0.4)	1.0
	0.9	**5.5**	**(4.6)**

**Items in each presented period with a balance below $0.1M is presented as $nil.*

Cash generated from operating activities was $0.9 million during the year ended December 31, 2020, compared to $5.5 million during the year ended December 31, 2019. The decrease of $4.6 million was the result of (1) a decrease in cash generated in operating activities before the impact of non-cash working capital of $5.6 million and (2) an increase in cash generated by non-cash working capital of $1 million during the year ended December 31, 2020.

Cash flow from (used in) investing activities
The increase in cash flow ($1.8 million) used in investing activities for the fourth quarter of 2020 and the year ended December 31, 2020 compared to the fourth quarter of 2019 and the year ended December 31, 2019 was related to the $1.5 million refundable deposit related to the No. B.S. Skincare acquisition and $0.3M loan advanced to Tru Brands.

Cash flow from (used in) financing activities
The increase in cash flow ($10.8M) from financing activities during the fourth quarter of 2020 compared to the fourth quarter of 2019 was mainly related to the Loan entered into during the fourth quarter of 2020 with net proceeds of $9.4M and the net reduction of the distribution to PureKana's members of $1.4M.

The increase in cash flow ($13.8M) from financing activities during the year ended December 31, 2020 compared to the year ended December 31, 2019 was mainly related to the Loan entered into during the fourth quarter of 2020 with net proceeds of $9.4M and the net reduction of the distribution to PureKana's members of $4.7M.

OUTSTANDING SHARE DATA

At December 31, 2020, the Company had 21,016,875 common shares (2019 – 375,000) issued and outstanding.

During the year ended December 31, 2020, in connection with the Transaction, the Company:

- issued 12,000,000 post-consolidation common shares of the Company to the former Heavenly security holders in exchange for membership units of PureKana;
- issued 8,454,375 post-consolidation common shares to the PureKana Founders;
- issued 187,500 post-consolidation common shares as the finder's fees;
- issued 22,500 agent's warrants; and
- issued 37,500 post-consolidation options to replace the outstanding options previously issued by PureK.

Subsequent to December 31, 2020, 22,500 warrants were exercised for cash proceeds of $30,000.

On January 19, 2021, the Board approved a Restricted Share Unit ("RSU") Plan and Deferred Share Unit (the "DSU") Plan (collectively the "Incentive Plan") for the purpose of providing a share-related mechanism to attract, retain and motivate qualified directors, employees and consultants of the Company and its subsidiaries. The Incentive Plan is administered by the Board of Directors, which sets the terms of incentive awards under the Incentive Plan. The maximum number of common shares available for issue under the Incentive Plan is 2,101,686 common shares of the Company. Grants of RSUs and DSUs vest as to on-third on each of the first, second and third anniversaries of the date of grant, unless otherwise set by the Board or plan administrator. Subsequent to December 31, 2020, the Company granted 390,000 RSUs to a consultant of the Company, which will vest upon the Incentive Plan receiving disinterested shareholder approval.

On February 22, 2021, the Company implemented a 3 for 1 forward split (the "Stock Split") of the Company's issued and outstanding common shares. The number of shares and relevant information including but not limited to the share price, number of warrants and options and exercise price per warrant and option presented in this MD&A had been adjusted accordingly.

As at the date of this MD&A, the Company had 21,039,375 common shares issued and outstanding.

In addition, as at the date of this MD&A, the Company had 37,500 stock options with exercise prices of CA$1.33 per share issued and outstanding.

(Expressed in United States Dollars unless otherwise specified)

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2020 and the date of this MD&A, the Company did not have any off-balance sheet financing arrangements.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Following is the related person or entities of the Company:

• Kathy Casey	Chief Executive Officer
• Brian Meadows	Chief Financial Officer and Corporate Secretary
• Jeff Yauck	Director
• Cody Alt	Director
• Michael Galloro	Director
• Paul Norman	Director

Key management compensation, including benefits, for the year ended December 31, 2020 was $448,009 (December 31, 2019 – $nil).

CRITICAL ACCOUNTING ESTIMATES

The preparation of our consolidated financial statements requires management to use judgment and make estimates and assumptions that affect the reported amounts assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amount of expenses during the period. Actual results could materially differ from these estimates. Refer to note 2 of our annual audited consolidated financial statements for the year ended December 31, 2020 for a more detailed discussion of the critical accounting estimates and judgments.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

There were no new or amended IFRS pronouncements effective January 1, 2020 that impacted these consolidated financial statements.

(Expressed in United States Dollars unless otherwise specified)

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

Fair value

The fair values of financial assets and liabilities, together with their carrying amounts, are presented by class in the following table:

	December 31, 2020	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
Cash	8,308,475	-	8,308,475	-
Accounts receivable	244,419	-	244,419	-
Other receivable	49,762	-	49,762	-
Loan receivable	367,772	-	367,772	-
Restricted cash	325,000	-	325,000	-
Security deposits	10,050	-	10,050	-
Financial liabilities:				
LIABILITIES				
Accounts payable and accrued liabilities	704,778	-	704,778	-
Current portion of lease obligation	50,855	-	50,855	-
Current portion of promissory note	3,687,501	-	3,687,501	-
Convertible preferred shares	3,132,461	-	3,132,461	-
Derivative liability	5,469,209	5,469,209	-	-
Promissory note	2,952,951	-	2,952,951	-
Lease obligation	33,756	-	33,756	-
Loan payable	9,726,972	-	9,726,972	-

	December 31, 2019	FVTPL $	Amortized costs $	FVTOCI $
Financial assets:				
ASSETS				
Cash	1,061,746	-	1,061,746	-
Accounts receivable	864,938	-	864,938	-
Security deposits	10,050	-	10,050	-
Financial liabilities:				
LIABILITIES				
Accounts payable and accrued liabilities	1,136,151	-	1,136,151	-
Current portion of lease obligation	42,347	-	42,347	-
Lease obligation	86,380	-	86,380	-

There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority.

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
Level 3 – Unobservable (supported by little or no market activity) prices.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies.

The levels of the fair value inputs used in determining estimated fair value of the Company's financial assets and liabilities at fair value through profit or loss as of December 31, 2020 are shown below.

		Estimated fair value		
	December 31, 2020	**Level 1 $**	**Level 2 $**	**Level 3 $**
Derivative liability	(5,469,209)	-	-	(5,469,209)

The financial instrument recorded at fair value on the statement of financial position is derivate liability which is measured using Level 3 of the fair value hierarchy. Level 3 inputs for other derivative liability include the use of the Black-Scholes option pricing model. Estimates are made regarding (i) the discount rate used, (ii) the expected life of the instruments, (iii) the volatility of the Company's common shares price which are driven by historical information and the expected dividend yield. Refer to Note 13 for further disclosures.

As of December 31, 2020, there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as Level 1 and Level 2 in the fair value hierarchy above.

As of December 31, 2019, there were no financial assets or liabilities measured and recognized in the statement of financial position at fair value that would be categorized as Level 1, Level 2 and 3 in the fair value hierarchy above.

Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of being affected by these risks. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk. When material, these risks are also reviewed and monitored by the Board of Directors.

Market risk

- Foreign currency risk

  The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in US$. The Company has not entered into any foreign currency contracts to mitigate this risk. The risk is measured using sensitivity analysis and cash flow forecasting.

  As of December 31, 2020, the majority of the Company's monetary assets and liabilities are denominated in US$; as a result, management believes the currency risk is minimal.

  The Company's derivative liability may expose to the currency risk as the Company's share is trading in CA$. Based on the sensitivity analysis, assuming that all other variables remain constant, a 10% appreciation or depreciation of the US$ against CA$ would provide insignificant impacts on the fair value of the derivative liability.

- Price risk

  The Company's derivative liability may expose to the price risk as the share price of the Company is one of the inputs of valuation. Based on the sensitivity analysis, assuming that all other variables remain constant, a 10%

increase (decrease) in the share price of the Company as of December 31, 2020, the fair value of the derivative liability will be decreased (increased) by appropriately $497,000 ($607,000).

- Interest rate risk
  The Company's interest rate risk principally arises from fluctuations in the US$ LIBOR rate as it relates to the Company's loan payable. A 1% change in the US$ LIBOR rate would result in approximately a $100,000 impact on the Company's profit or loss for the year ended December 31, 2020. The Company has not entered into any interest rate swaps to mitigate this risk.

  The Company's derivative liability may expose to the interest as the risk-free interest rate is one of the inputs of valuation. Based on the sensitivity analysis, assuming that all other variables remain constant, a 1% increase (decrease) in the risk-free interest rate, the fair value of the derivative liability will be increased (decreased) by appropriately $50,000.

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.

The Company believes that the credit risk of accounts receivable is limited as the accounts receivable as of December 31, 2020 are current and collected subsequent to the year ended December 31, 2020.

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due. As of December 31, 2020, the Company had cash of $8,308,475 to meet short-term business requirements. As of December 31, 2020, the Company had current liabilities of $4,487,979. The Company believes that the liquidity risk is low as the Company has sufficient working capital to support the operation in the next twelve months.

RISKS AND UNCERTAINTIES

An investment in the Company is subject to various risks and should be considered highly speculative. Investors should consider the following risk factors. The risks and uncertainties described below are not exhaustive. Additional risks not presently known or currently deemed immaterial may also impair the Company and its subsidiaries business operation. If any of the events described in the following business risks actually occur, overall business, operating results and the financial condition of Company and its subsidiaries could be materially adversely affected.

Risks Related to the Regulatory Environment

<u>Changes to Federal Laws Pertaining to Hemp and Hemp Production</u>

The 2018 Farm Bill removed Hemp from the definition of marijuana in the CSA. Federal regulations under the 2018 Farm Bill were promulgated in the Interim Final Rule ("IFR") issued by the USDA with respect to commercial production of Hemp in the United States. The IFR governs the domestic production of Hemp under the 2018 Farm Bill and also specifies the provisions that a state or tribal Hemp plan must contain to be in compliance with the 2018 Farm Bill. However, some states are continuing to operate under the 2014 Farm Bill through the 2020 growing season, and the IFR expires November 1, 2021, at which time the USDA will adopt permanent regulations. This means that the complete effects of the IFR (and potentially other federal regulations for Hemp) are yet unknown and will take time to unfold and be implemented. Should the IFR or other regulations result in stricter requirements on PureKana than those of the 2014 or 2018 Farm Bills, such changes could have a material adverse effect on PureKana's business, financial condition and results of operations.

Changes to State Hemp Production Laws

The 2018 Farm Bill provides that states and Native American tribes may assume primary regulatory authority over the production of Hemp in their jurisdictions through a Hemp production plan approved by the USDA. As of the date hereof, the USDA has approved a few dozen state and tribunal hemp production plans submitted after IFR becam effective. If a state or tribe does not have a pending or approved hemp production plan, it may apply for a Hemp Production License that is issued by USDA. Approximately 20 states – including Kentucky, Colorado, and Oregon – have chosen not to submit plans to the USDA for the 2021 growing season, instead relying on their pilot program authorizations from the Agricultural Act of 2014, section 7606 (the "2014 Farm Bill"). Continued development of the Hemp industry will be dependent upon new legislative authorization of Hemp at the state level, and further amendment or supplementation of legislation at the federal level. Any number of events or occurrences could slow or halt progress all together in this space. While progress within the Hemp industry is currently encouraging, growth is not assured. While there appears to be ample public support for favorable legislative action at the state and federal levels, numerous factors may impact or negatively affect the legislative process(es) within the various states PureKana has business interests in. Any one of these factors could slow or halt use of Hemp or CBD, which would negatively impact PureKana's business or growth, including possibly causing PureKana to discontinue operations as a whole.

Legislative and regulatory uncertainties, along with difficulties concerning potential enforcement activities by US federal, state and local governments (or discretion exercised thereby) also represent significant risks to the Company's business activities. Possible risks include, but are not limited to:

- positions asserted by the FDA concerning products containing derivatives from hemp;
- uncertainty surrounding the characterization of cannabinoids as a dietary ingredient by the FDA; and
- enforcement activities by state and/or local law enforcement and regulatory authorities under the auspice of individual state law, regardless of any potential conflict thereby with federal law.

If the Company's operations are found to be in violation of any such laws or any other governmental regulations, or if applicable laws or regulations change or the enforcement of applicable laws or regulations changes, the Company may be subject to penaliteis, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures, any of which could adversely affect the Company's business and financial results.

Risks Associated with Numerous Laws and Regulations

The production, labeling and distribution of the products that PureKana distributes are regulated by various federal, state and local agencies. These governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of PureKana's product claims or the ability to sell its products in the future. The FDA regulates consumable products and the 2018 Farm Bill explicitly preserved FDA's authority over hemp products. The industry assumption is that consumable hemp CBD products, such as PureKana's products, will similarly be regulated by the FDA to ensure that the products are not adulterated or misbranded.

PureKana is subject to regulation by various agencies as a result of the sale of its hemp-based CBD products. The shifting compliance environment and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions increases the possibility that PureKana may violate one or more of the requirements. If PureKana's operations relating to particular products are found to be in violation of any of such laws or any other governmental regulations, or perceived to be in violation, PureKana may be subject to penalties or other negative effects, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of PureKana's operations or asset seizures and the denial of regulatory applications (including those regulatory regimes outside of the scope of FDA jurisdiction, but which may rely on the positions of the FDA in the application of its regulatory regime), any of which could adversely affect PureKana's business and financial results.

Failure to comply with state and federal requirements, may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. To the extent FDA regulations apply and products are classified as dietary supplements, such products are subject to regulation by the FDA under the DSHEA. PureKana's advertising is also subject to regulation by the Federal Trade Commission ("FTC") under the Federal Trade Commission Act. In recent years, the FTC has initiated numerous investigations of dietary and nutritional supplement products and companies based on allegedly deceptive or misleading claims. At any point, enforcement strategies of a given agency can change as a result of other litigation in the space or changes in political landscapes, and could result in increased enforcement efforts, which would materially impact PureKana's business. Additionally, some states also permit consumer protection laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, and class wide damages for products sold by PureKana. Private litigants may also seek relief for consumers, class action certifications, and class wide damages for products sold by PureKana. Any actions against PureKana by governmental authorities or private litigants could have a material adverse effect on PureKana's business, financial condition and results of operations.

<u>Compliance with Changes in Legal, Regulatory and Industry Standards</u>

The formulation, manufacturing, packaging, labelling, handling, distribution, importation, exportation, licensing, sale and storage of PureKana's products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints may exist at the federal, provincial or local levels. There is currently no uniform regulation applicable to hemp-based CBD products worldwide. There can be no assurance that PureKana is in compliance with all of these laws, regulations and other constraints, and changes to such laws, regulations and other constraints may have a material adverse effect on operations.

<u>Inconsistent Application of the 2018 Farm Bill</u>

The 2018 Farm Bill removed Hemp from the CSA and, accordingly, the DEA no longer has any claim to interfere with the interstate commerce of Hemp products, so long as the THC level is no more than 0.3% on a dry weight basis. There is a risk of inconsistent application of the 2018 Farm Bill by state and federal authorities as it relates to Hemp products. Often it is hard to distinguish Hemp-based products containing Hemp compliant with the 2018 Farm Bill from other products with a THC level greater than 0.3%. Without a certificate of authenticity or testing, while in transit, federal and/or state authorities may refuse to acknowledge the legality of product and seize, delay, or compromise product at a significant cost to the business. A successful challenge to PureKana by a state or federal authority could have a material adverse effect on PureKana, including business opportunity loss, civil and criminal penalties, damages, fines, the curtailment or restructuring of PureKana's operations or asset seizures and the denial of regulatory applications.

<u>International Regulatory Risks</u>

PureKana has conducted sales in various international jurisdictions and PureKana intends to expand internationally. As a result, it is and will become further subject to the laws and regulations of (as well as international treaties among) the foreign jurisdictions in which it operates or imports or exports products or materials. In addition, PureKana may avail itself of proposed legislative changes in certain jurisdictions to expand its product portfolio, which expansion may include business and regulatory compliance risks as yet undetermined. Failure by PureKana to comply with the current or evolving regulatory framework in any jurisdiction could have a material adverse effect on PureKana's business, financial condition and results of operations. There is the possibility that any such international jurisdiction could determine that PureKana was not or is not compliant with applicable local regulations. If PureKana's historical or current sales or operations were found to be in violation of such international regulations, PureKana may be subject to enforcement actions in such jurisdictions including, but not limited to, civil and criminal penalties, damages, fines, the curtailment or restructuring of PureKana's operations or asset seizures and the denial of regulatory applications. Cannabis-related financial transactions are subject to a variety of laws that vary by jurisdiction, many of which are unsettled and still developing. While the interpretations of these laws are unclear, in some jurisdictions, financial benefit, directly or indirectly, arising from conduct that would be considered unlawful in such jurisdiction may be viewed to be within the purview of such laws, and persons receiving any such benefit, including investors in an applicable jurisdiction, may be subject to liability. Each prospective investor should contact his, her or its own legal advisor. There has been an increasing movement in certain foreign markets to increase the regulation of natural health products, which will impose additional restrictions or requirements. In addition, there has been increased regulatory scrutiny of nutritional supplements and marketing claims under existing and new regulations. Such anticipated regulatory changes may introduce some risk and may harm PureKana's operations if its products or advertising activities are found to violate existing or new regulations, or if PureKana is not able to affect necessary changes to its products in a timely and efficient manner to respond to new regulations.

Entry into International Markets

PureKana's entry into new international markets would require management attention and financial resources that would otherwise be spent on other parts of its business. PureKana's international sales could expose it to risks and expenses inherent in operating or selling products in foreign jurisdictions, and developing and emerging markets in particular where the risks may be heightened. These risks and expenses include:

- adverse currency exchange rate fluctuations;
- risks associated with complying with laws and regulations in the countries in which PureKana's products are sold, such as requirements to apply for and obtain licenses, permits or other approvals for products, and the delays associated with obtaining such licenses, permits or other approvals;
- the costs of adapting products for sale in foreign countries, including to changes to formulations, formats, labelling or packaging;
- multiple, changing, and often inconsistent enforcement of laws, rules and regulations, including regulations and standards relating to consumer health products;
- risks associated with the reliance on international distributors, including the possible failure of international distributors to appropriately understand, represent and effectively market and sell PureKana's products;
- damage to PureKana's reputation or brand if counterfeit versions of PureKana's products are introduced into international markets;
- the imposition of additional foreign governmental controls or regulations, new or enhanced trade restrictions or non-tariff barriers to trade, or restrictions on the activities of foreign agents, representatives, employees and distributors;
- increases in taxes, tariffs, customs and duties, or costs associated with compliance with import and export licensing and other compliance requirements;
- downward pricing pressure on PureKana's products in international markets, due to competitive factors or otherwise;
- laws and business practices favouring local companies;
- political, social or economic unrest or instability;
- greater risk on credit terms, longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;

- difficulties in enforcing or defending intellectual property rights; and
- the effect of disruptions caused by severe weather, natural disasters, outbreak of disease or other events that make travel to a particular region less attractive or more difficult.

PureKana's international efforts may not produce desired levels of sales. Furthermore, its experience with selling products in its current international markets may not be relevant or may not necessarily translate into favourable results if PureKana sells in other international markets. If and when PureKana enters into new markets in the future, it may experience different competitive conditions, less familiarity with PureKana's brands and/or different consumer tastes and discretionary spending patterns. As a result, it may be less successful than expected in expanding PureKana's sales in current and targeted international markets. Sales into new international markets may take longer to ramp up and reach expected sales and profit levels, or may never do so, thereby affecting its overall growth and profitability. To build brand awareness in new markets, PureKana may need to make greater investments in advertising and promotional activity than originally planned, which could negatively impact the profitability of its sales in those markets. These or one or more of the factors listed above may harm PureKana's business, results of operations or financial condition. Any material decrease in PureKana's international sales or profitability could also adversely impact PureKana's business, results of operations or financial condition.

Uncertainty and Evolving Regulatory Authority Caused by Potential Changes to Regulatory Framework

FDA leadership has been in flux and will continue to be uncertain with upcoming US elections. Although PureKana believes that the resignation of Commissioner Gottlieb of the FDA will not have a significant longterm impact on the development of a regulatory regime permitting Cannabis-derived compounds in foods or dietary supplements, there can be no certainty that Commissioner Hahn, Commissioner Gottlieb's replacement, will continue on that same path, even though Commissioner Hahn has expressed openness to a regulatory path for CBD in dietary supplements and stated that it would be a "fool's game" to close the CBD products market entirely. If Commissioner Hahn, or any other FDA Commissioner, were to halt current initiatives of the FDA, such as the recently-announced public meeting process, this could delay the development of such a regulatory regime and have an adverse effect on the business of PureKana.

NDI Objection by FDA

There is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether cannabinoids were present in the food supply and marketed prior to October 15, 1994, or whether such inclusion of cannabinoids is otherwise approved by the FDA as dietary ingredients. The uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that hemp products containing cannabinoids were not present in the food supply, marketed prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient or are adulterants would have a materially adverse effect upon PureKana and its business. PureKana could be required to submit a new dietary ingredient ("NDI") notification to the FDA with respect to hemp. If the FDA objects to PureKana's NDI notification, this would have a material adverse effect upon PureKana and its business.

FDA Interpretation of Prior Drug Exclusion

The FDA has taken the position that CBD cannot be added to food or marketed as a dietary supplement because it has been the subject of investigation as a new drug (such restrictions referred to as "Prior Drug Exclusion") prior to being marketed as a conventional food or dietary supplement. According to the FDA, the submission of the IND application for Epidiolex by Greenwich Biosciences, the U.S. subsidiary of London-based GW Pharmaceuticals, preceded the sales and marketing of CBD as a dietary supplement. FDA interprets the Prior Drug Exclusion applying as of the date in which FDA authorized the new drug for investigation. If the FDA were to enforce the Prior Drug

Exclusion based on its interpretation of the legislation, this would materially and adversely impact PureKana's business and financial condition.

FDA Enforcement through Warning Letters

The FDA continues to enforce against violations of the FD&C Act by issuing warning letters to companies marketing and selling hemp derived CBD products as unapproved drugs. Notably, on November 25, 2019, the FDA issued warning letters to companies marketing and selling hemp derived CBD products deemed unapproved drugs. There have been numerous FDA warning letters issued in 2020 related to CBD products making COVID-19 treatment claims, similarly resulting in such products being deemed unapproved drugs. The FDA has also issued several consumer updates reaffirming its position that CBD cannot lawfully be added to a food or marketed as a dietary supplement due to existing provisions of the FD&C Act and the Prior Drug Exclusion, and outlines the data and potential safety issues it is considering as part of its ongoing evaluation of potential regulatory frameworks for CBD. Notably, the FDA states that it could not conclude based on available data that CBD is "generally recognized as safe" for use in human or animal food. While this is broad and may not be applicable in all instances, it nevertheless could materially and adversely impact PureKana's business and financial condition. Further, the FDA has recently stated that it will continue to police the market and enforce against CBD products, particularly those that violate the law in ways that raise a variety of public health concerns. The FDA's current prohibition on certain hemp-derived products and the unknowns and associated risks of potential future regulations governing hemp-derived CBD products create risk for PureKana's business.

Regulatory Approval and Permits

PureKana may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are sold. There can be no assurance that PureKana will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit PureKana's ability to conduct its business, and would have an adverse effect on its business, financial condition and results of operations.

Environmental, Health and Safety Laws

PureKana is subject to environmental, health and safety laws and regulations in each jurisdiction in which PureKana operates. PureKana's costs of complying with current and future environmental and health and safety laws, liabilities arising from past or future actions, or more vigorous enforcement of environmental and employee health and safety laws, may have a material adverse effect on PureKana's business, financial condition and results of operations.

Anti-money Laundering Laws and Regulations

PureKana is subject to a variety of laws and regulations in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act), and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States. In February 2014, the Financial Crimes Enforcement Network ("FCEN") of the U.S. Department of the Treasury issued a memorandum providing instructions to banks seeking to provide services to marijuana related businesses (the "FCEN Memo"). The FCEN Memo states that in some circumstances, it may not be appropriate to prosecute banks that provide services to marijuana-related businesses for violations of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on Cannabis-related violations of the CSA. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo. Under U.S. federal law, banks or other financial institutions that provide a Cannabis-related business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. If any of PureKana's investments, or any proceeds thereof, any distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of PureKana to effect distributions.

Banking

Since the production and possession of Cannabis is currently illegal under U.S. federal law and PureKana relies on exemptions promulgated pursuant to the 2018 Farm Bill, it is possible that banks may refuse to open bank accounts for the deposit of funds from businesses involved with the Hemp industry. The inability to open bank accounts with certain institutions could materially and adversely affect the business of PureKana. On December 3, 2019, the Federal Reserve Board, Federal Deposit Insurance Corporation, FCEN, and Office of the Comptroller of the Currency in consultation with the Conference of State Bank Supervisors, issued a statement to provide clarity regarding the legal status of commercial growth and production of hemp and relevant requirements for banks under the Bank Secrecy Act. The statement emphasized that banks were no longer required to file suspicious activity reports for customers solely because they are engaged in the growth or cultivation of hemp in accordance with applicable laws and regulations.

Debt

From time to time, PureKana may rely on debt financing for a portion of its business activities, including capital and operating expenditures. There are no assurances that PureKana will be able to comply at all times with the covenants applicable under its debt arrangements; nor are there assurances that PureKana will be able to secure new financing that may be necessary to finance its operations and capital growth program. Any failure of PureKana to secure financing or refinancing, to obtain new financing or to comply with applicable covenants under its borrowings could have a material adverse effect on PureKana's financial results. Further, any inability of PureKana to obtain new financing may limit its ability to support future growth.

Ability to Access Public and Private Capital and Banking Services

PureKana currently holds a bank account with a national U.S. institution. PureKana also currently has a payment processing agreement in place providing for online/credit card payments in connection with its ecommerce sales. PureKana has access to equity and debt financing from the prospectus-exempt (private placement) markets in Canada and the United States. PureKana's executive team and the PureKana Board also have relationships with sources of private capital which PureKana could investigate. PureKana has not attempted to access the public capital markets. PureKana anticipates that funding sources may be available pursuant to private offerings of equity and/or debt and bank lending. Commercial banks, private equity firms and venture capital firms have approached the Cannabis industry cautiously to date. However, there have been an increasing number of meaningful investments from both the private and the public capital markets in companies and projects similar to PureKana's business. Although there has been an increase in the amount of financing available to companies in the Cannabis industry over the last several years, there is neither a broad nor deep pool of institutional capital that is available to Cannabis industry participants. There can be no assurance that additional financing will be available to PureKana when needed or on terms which are acceptable. PureKana's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

Liability for Actions of Employees, Contractors and Consultants

PureKana could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against PureKana. PureKana is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to PureKana that violates: (i) government regulations; (ii) manufacturing standards; (iii) U.S. federal fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for PureKana to identify and deter misconduct by its employees and other third parties, and the precautions taken by PureKana to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting PureKana from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against PureKana, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, the curtailment of PureKana's operations or asset seizures, any of which could have a material adverse effect on PureKana's business, financial condition and results of operations.

Risks Related to PureKana's Business and Industry

Impacts of COVID-19 to PureKana's Business

The impacts of the global emergence of the novel strain of coronavirus, identified as COVID-19, on PureKana's business are currently unknown. PureKana will monitor the situation and may take actions that alter its business operations as may be required by federal, state or local authorities or that PureKana determines are in the best interests of its employees, customers, partners, suppliers, equity holders and stakeholders. Any such actions could impact or cause substantial interruption to PureKana's business, which could have a material adverse effect on PureKana's business and operations or financial results. In response to, or as a result of, the current COVID-19 pandemic, PureKana may experience, among other things, voluntary or mandated temporary closures of PureKana's facilities; temporary or long-term labor shortages; temporary or long-term adverse impacts on PureKana's supply chain and distribution channels; the potential of increased network vulnerability and risk of data loss resulting from increased use of remote access and removal of data from PureKana's facilities; difficulty in complying with covenants under its current or future debt agreements; required reallocation or adjustment of resources, which may impact PureKana's business plans and product offerings. In addition, the direct or indirect impacts of COVID-19 may extend to disrupt PureKana's suppliers, partners, manufacturers, farmers, customers and other stakeholders, which in turn could materially adversely affect PureKana's business, results of operations or financial condition. Any change or disruption in operations could impact and have a material adverse effect on PureKana's operations and/or results from operations.

In addition, voluntary or mandated efforts to slow the spread of COVID-19 could impact PureKana's operations. To date, a number of governments worldwide have enacted measures to combat the spread of the virus, including in the U.S. These measures have included the implementation of travel restriction, self-isolation measures, physical distancing and in some instances, the suspension of non-essential business. If portions or all of PureKana's, or its retail-partners', operations are disrupted or suspended as a result of these or other measures, it could have a material adverse impact on PureKana's profitability, results of operations and financial condition.

Further, there are potentially significant economic and social impacts of the COVID-19 pandemic, including a surge in unemployment which may lead to a deterioration in consumer balance sheets, reduction in the availability of consumer credit, and have an impact on consumer behavior, as well as a reduction in retail purchases as a result of business suspension and physical distancing measures, any of which may have a material adverse impact on PureKana's profitability, results of operations and financial condition.

PureKana will continue to monitor the situation and work with its stakeholders (including customers, employees and suppliers) in order to assess further possible implications to its business, supply chain and customers, and, where practicable, take actions with a goal to mitigating adverse consequences and responsibly addressing this global pandemic.

Product Viability

If the products PureKana sells are not perceived to have the effects intended by the end user, its business may suffer. Many of PureKana's products contain innovative ingredients or combinations of ingredients. There is little long-term data with respect to efficacy, unknown side effects and/or interaction with individual human biochemistry. Moreover, there is little long-term data with respect to efficacy, unknown side effects and/or its interaction with individual animal biochemistry. As a result, PureKana's products could have certain side effects if not taken as directed or if taken by an end user that has certain known or unknown medical conditions.

Products have Limited Shelf Life

PureKana holds goods in inventory and its products have a limited shelf life. Its inventory may reach its expiration date and not be sold. Although PureKana manages its inventory, it may be required to write-down the value of any inventory that has reached its expiration date, which could have a material adverse effect on PureKana's business, financial condition, and results of operations.

Success of Quality Control Systems

The quality and safety of PureKana's products are critical to the success of its business and operations. As such, it is imperative that PureKana's (and its service provider's) quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although PureKana strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on PureKana's business and operating results.

Product Recalls

Products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling statements. If any of PureKana's products are recalled due to an alleged product defect or for any other reason, PureKana could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. PureKana may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Recall of products could lead to adverse publicity, decreased demand for PureKana's products and could have significant reputational and brand damage. Although PureKana has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. A recall for any of the foregoing reasons could lead to decreased demand for PureKana's products and could have a material adverse effect on the results of operations and financial condition of PureKana. Additionally, product recalls may lead to increased scrutiny of PureKana's operations by regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Product Liability

PureKana's products will be produced for sale to end consumers, and therefore there is an inherent risk of exposure to product liability claims, regulatory action and litigation if the products are alleged to have caused loss or injury. In addition, the production and sale of PureKana's products involves the risk of injury to end users due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human or animal consumption of PureKana's products alone or in combination with other medications or substances could occur. PureKana may be subject to various product liability claims, including, among others, that its 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 PureKana could result in increased costs, could adversely affect PureKana's reputation, and could have a material adverse effect on its business and operational results.

Positive Test for THC or Banned Substances

PureKana's products are made from Hemp derived from the Cannabis plant, which inherently contains THC at levels no more than 0.3% on a dry weight basis. As a result, certain of PureKana's products may contain trace THC levels below 0.3%. THC is considered a banned substance in many jurisdictions. Moreover, regulatory framework for legal amounts of consumed THC is evolving. PureKana cannot guarantee that consumers will or will not pass a drug test after consuming PureKana products. Depending on the individual and the particular drug test being used, it is possible that trace THC content may show up on various drug screenings. Whether or not ingestion of THC (at low levels or otherwise) is permitted in a particular jurisdiction, there may be adverse consequences to end users who test positive for trace amounts of THC attributed to use of PureKana's products. In addition, certain metabolic processes in the body may cause certain molecules to convert to other molecules which may negatively affect the results of drug tests. Positive drug tests may adversely affect the end user's reputation, ability to obtain or retain employment and participation in certain athletic or other activities. A claim or regulatory action against PureKana based on such positive drug test results could adversely affect PureKana's reputation and could have a material adverse effect on its business and operational results.

Product Returns

Product returns are a customary part of PureKana's business. Products may be returned for various reasons, including expiration dates or lack of sufficient sales volume. Any increase in product returns could reduce PureKana's results of operations.

Reputational Risk and Consumer Perception

PureKana believes that the Hemp industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the Hemp produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory proceedings, litigation, media attention and other publicity regarding the consumption of Hemp products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the Hemp market or any particular product, or consistent with currently held views. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the Hemp industry and demand for its products and services, which could affect PureKana's business, financial condition and results of operations and cash flows. PureKana's dependence upon consumer perception means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on PureKana, its business, financial condition, results of operations and cash flows. Further, adverse publicity, reports or other media attention regarding the safety, efficacy and quality of Hemp in general, or PureKana's products specifically, or associating the consumption of Cannabis with illness or other negative effects or events, could have a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately, or as directed.

In addition, parties outside of the Hemp industry with which PureKana does business may perceive that they are exposed to reputational risk as a result of PureKana's Hemp related business activities. For example, PureKana could receive a notification from a financial institution advising it that they would no longer maintain banking relationships with those in the Hemp industry. PureKana may, in the future, have difficulty establishing or maintaining bank accounts or other business relationships that it needs to operate its business. Failure to establish or maintain business relationships could have a material adverse effect on PureKana.

Natural Disasters, Unusually Adverse Weather, Pandemic Outbreaks, Boycotts and Geo-Political Events

The occurrence of one or more natural disasters, such as hurricanes and earthquakes, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events, such as civil unrest and acts of terrorism, or similar disruptions could materially adversely affect PureKana's business, results of operations or financial condition. These events could result in physical damage to PureKana's properties, increases in fuel or other energy prices, temporary or permanent closure of PureKana's facilities, labour shortages, temporary or long-term disruption in the supply of raw materials and other inputs, temporary disruption in transport to and from markets, disruption in PureKana's distribution network or disruption to PureKana's information systems, any of which could have a material adverse effect on PureKana's business, results of operations or financial results.

Climate Change and Weather-Related Risks

Climate change could result in increasing frequency and severity of weather-related events, resource shortages, changes in rainfall and storm patterns and intensities, water shortages and changing temperatures, any of which can damage or destroy crops, disrupting PureKana's operations by impacting the availability and costs of materials and input products needed for its products.

In addition, the availability and prices of products we source may be affected by, among other things, the introduction of regulatory changes in response to concerns about the potential impact of climate change and unusual weather patterns.

Transportation Risk

In order for customers of PureKana to receive their product, PureKana relies on third party transportation services. This can cause logistical problems with, and delays in, end users obtaining their orders which PureKana cannot control. Any delay by third party transportation services may adversely affect PureKana's financial performance. Moreover, transportation to and from PureKana's facilities is critical. A breach of security during transport could have material adverse effects on PureKana's business, financials and prospects. Any such breach could impact PureKana's operations and financial performance.

Domestic Supply Risk

The regulation of third-party suppliers or distributors may have a significant impact upon PureKana's business. Any enforcement activity or any additional uncertainties which may arise in the future could cause substantial interruption or cessation of PureKana's business, including adverse impacts to PureKana's supply chain and distribution channels, and other civil and/or criminal penalties at the federal level.

Reliance on Third Party Suppliers, Service Providers, Manufacturers and Distributors

PureKana's suppliers, service providers, contract manufacturers and distributors may elect, at any time, to breach or otherwise cease to participate in supply, service or distribution agreements, or other relationships, on which PureKana's operations rely. Loss of its suppliers, service providers, contract manufacturers or distributors would have a material adverse effect on PureKana's business and operational results. PureKana currently relies on third-party contract manufacturers to manufacture PureKana products. Disruption of operations of its third-party contract manufacturers could adversely affect inventory supplies and PureKana's ability to meet product delivery deadlines.

Third Party Risks

PureKana is party to business relationships, transactions and contracts with various third parties, pursuant to which such third parties have performance, supply, payment and other obligations to PureKana. If any of these third parties were to become subject to business interruption, bankruptcy, receivership or similar proceedings, PureKana's rights and benefits in relation to its business relationships, contracts and transactions with such third parties could be terminated, modified in a manner adverse to PureKana, or otherwise impaired. PureKana cannot make any assurances that it would be able to arrange for alternate or replacement business relationships, transactions or contracts on terms as favorable as existing business relationships, transactions or contracts if at all. Any inability on PureKana's part to do so could have a material adverse effect on its business and results of operations.

Industry Competition

The markets for businesses in the Hemp CBD and Hemp oil industries are competitive and evolving. In particular, PureKana faces strong competition from both existing and emerging companies that offer similar products. Some of its current and potential competitors may have longer operating histories, greater financial, marketing and other resources and larger customer bases than PureKana.

Given the rapid changes affecting the global, national, and regional economies generally and the Hemp CBD industry, in particular, PureKana may not be able to create and maintain a competitive advantage in the marketplace. PureKana's success will depend on its ability to keep pace with any changes in such markets, especially in light of legal and regulatory changes. Its success will depend on PureKana's ability to respond to, among other things, changes in the economy, market conditions, and competitive pressures. Any failure by PureKana to anticipate or respond adequately to such changes could have a material adverse effect on its financial condition, operating results, liquidity, cash flow and operational performance.

Intra-Industry Competition

The number of competitors in PureKana's market segment is expected to increase, both nationally and internationally, which could negatively impact PureKana's market share and demand for products.

The introduction of a recreational model for marijuana production and distribution in various jurisdictions may cause producers in those jurisdictions to expand beyond the medical marijuana market and compete with PureKana's products. The impact of this potential development may be negative for PureKana and could result in increased levels of competition in its existing market and/or the entry of new competitors in the overall cannabis market in which PureKana operates.

There is potential risk that PureKana will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than PureKana. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of PureKana.

PureKana also faces competition from producers who may not comply with applicable regulations. As a result, such producers may have lower operating costs, make impermissible claims and utilize other competitive advantages based on circumvention of regulatory requirements. To remain competitive, PureKana will require continued significant investment in marketing, sales and customer support. PureKana may not have sufficient resources to maintain marketing, sales and customer support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of PureKana.

As well, the legal landscape for PureKana's products is changing internationally. More countries have passed laws that allow for the production and distribution of Cannabis in some form or another. Increased international competition might lower the demand for PureKana's products on a global scale.

Other Conflicts of Interest

Certain of the officers and managers of PureKana may also be directors, managers, officers, consultants or stakeholders of other companies or enterprises, some of which may be in similar sectors, and conflicts of interest may arise between their duties to PureKana and their duties to or interests in such other companies or enterprises. Certain of such conflicts may be required to be disclosed in accordance with, and subject to, such procedures and remedies as applicable under applicable corporate and securities laws, however, such procedures and remedies may not fully protect PureKana.

Changing Consumer Preferences and Customer Retention

As a result of changing consumer preferences, many innovative products attain financial success for a limited period of time. Even if PureKana's products find retail success, there can be no assurance that any of its products will continue to see extended financial success. PureKana's success will be significantly dependent upon its ability to introduce new product lines. Even if it is successful in introducing new products or relying on its current products, a failure to gain consumer acceptance or to update products with compelling content could cause a decline in its products' popularity that could reduce revenues and harm PureKana's business, operating results and financial condition. Failure to introduce new features and product lines and to achieve and sustain market acceptance could result in PureKana being unable to meet consumer preferences and generate revenue which would have a material adverse effect on its profitability and financial results from operations.

PureKana's success depends on its ability to attract and retain customers. There are many factors which could impact PureKana's ability to attract and retain customers, including but not limited to PureKana's ability to continually produce desirable and effective product, the successful implementation of PureKana's customer acquisition plan and the continued growth in the aggregate number of people selecting Hemp CBD products. PureKana's failure to acquire and retain customers could have a material adverse effect on PureKana's business, operating results and financial position.

Purekana's Relationships with Retailers may Deteriorate

In addition to sales through PureKana's own e-commerce platforms, PureKana also relies on retailers to display, present and sell its products to consumers in their brick and mortar stores and through their online e-commerce sites. PureKana's retailers stock and display its products. PureKana's relationships with these retailers are important for maintaining and building consumer trust in its brands and for executing the advertising and educational programs PureKana continues to deploy. PureKana's failure to maintain these relationships with its retailers or difficulties experienced by these retailers could harm PureKana's business.

PureKana does not receive long-term purchase commitments from its retailers, and confirmed orders received from retail partners may be difficult to enforce. Furthermore, there can be no assurance that PureKana will be able, in the future, to continue to sell its products to its retail customers on favourable trading terms or at all. PureKana may be obligated to stop shipments to its retail customers or such customers may refuse shipments from PureKana in the course of negotiating the resolution of trading issues with such customers. Factors that could affect PureKana's ability to maintain or expand its sales to these retailers include: (i) failure to accurately identify the needs of PureKana's customers; (ii) lack of customer acceptance of new products or product expansions; (iii) unwillingness of PureKana's retailers to attribute value to PureKana's existing and new products relative to competing products; (iv) failure to obtain shelf space from retailers; and (v) new, well-received product introductions by competitors. PureKana's sales depend, in part, on retailers effectively displaying its products, including providing attractive space in their stores, including online e-commerce platforms, and, in certain channels, having knowledgeable employees that can explain PureKana's products and their attributes. If PureKana loses any of its key retailers, or if any key retailer reduces their purchases of PureKana's existing or new products, reduces their number of stores or operations, promotes products of competitors over PureKana, or suffers financial difficulty or insolvency, PureKana may experience reduced sales of its products, resulting in lower revenue and gross profit margin, which would harm PureKana's profitability and financial condition.

Maintaining and Promoting PureKana's Brand

Management believes that maintaining and promoting PureKana's brand is critical to expanding its customer base. Maintaining and promoting PureKana's brand will depend largely on its ability to continue to provide quality, reliable and innovative products, which it may not do successfully. PureKana may introduce new products or services that its customers do not like, which may negatively affect its brand and reputation. Maintaining and enhancing PureKana's brand may require it to make substantial investments, and these investments may not achieve the desired goals. If PureKana fails to successfully promote and maintain its brand or if it incurs excessive expenses in this effort, its business and financial results from operations could be materially adversely affected.

Inability to Sustain Pricing Models

Significant price fluctuations or shortages in the cost of materials and input products may increase PureKana's cost of goods sold and cause its results of operations and financial condition to suffer. If PureKana is unable to secure materials and input products at a reasonable price, it may have to alter or discontinue selling some of its products or attempt to pass along the cost to its customers, any of which could adversely affect its results of operations and financial condition. Additionally, any significant interruption in, or increasing costs of, labour, freight and energy could increase PureKana's and its suppliers' cost of goods and have a material impact on PureKana's financial condition and results from operations. If PureKana's suppliers are affected by increases in their costs of labour, freight and energy, they may attempt to pass these cost increases on to PureKana. If PureKana pays such increases, it may not be able to offset them through increases in its pricing, which could adversely affect its results of operations and financial condition.

Reliance on Key Inputs

PureKana's business is dependent on a number of key inputs and their related costs, including raw materials, products and supplies. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of PureKana. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of PureKana.

The ability of PureKana to compete and grow will be dependent on having access, at a reasonable cost and in a timely manner, to skilled labour, materials, input products, and components. No assurances can be given that PureKana will be successful in maintaining the required supply of such items.

Any inability to establish such supply inputs, or significant interruption or negative change in the availability or economics of the supply chain for key inputs, could materially impact the financial results and operations of PureKana.

Effectiveness and Efficiency of Advertising and Promotional Expenditures; Search Engine Algorithms

PureKana's future growth and profitability will depend on the effectiveness and efficiency of advertising and promotional expenditures, including its ability to: (i) create greater awareness of its products; (ii) determine the appropriate creative message and media mix for future advertising expenditures; and (iii) effectively manage advertising and promotional costs in order to maintain acceptable operating margins. There can be no assurance that advertising and promotional expenditures will result in revenues in the future or will generate awareness of PureKana's products. In addition, no assurance can be given that PureKana will be able to manage its advertising and promotional expenditures on a cost-effective basis.

In addition, periodic changes to search engine algorithms, which retrieve data from search indices and deliver ranked search results, produce changes in search engine results pages. 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.

Successfully Management and Growth of E-commerce Business

Management and growth of PureKana's e-commerce sales are essential to PureKana's growth. The usability of and client experience provided by PureKana's e-commerce platform is critical to the success and growth of its e-commerce sales. Any extended software disruption of PureKana's e-commerce platform or the failure on the part of PureKana 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 PureKana at a competitive disadvantage, result in the loss of revenue or harm PureKana's reputation with customers and could have a material adverse effect on business and results of operations. PureKana 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 PureKana's website resulting in loss of revenue or harm to reputation.

The success of PureKana's e-commerce business is also dependent on PureKana'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 PureKana 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, PureKana's financial position and results of operations may be negatively impacted.

Furthermore, if PureKana is unable to 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, PureKana's financial position and results of operations may be negatively impacted.

Inability to Implement Growth Strategy

PureKana's future success depends, in part, on its ability to implement its growth strategy, including (i) product innovations within existing categories and growth into adjacent categories and continued growth of existing products in existing categories; (ii) further penetration into new markets and geographies; and (iii) in support of its profitability targets, improvements in PureKana's operating income, gross profit and Adjusted EBITDA margins. PureKana's ability to implement this growth strategy depends, among other things, on its ability to:

- develop new products and product line extensions that appeal to consumers and will be supported by retailers and distributors;
- maintain and expand brand loyalty and brand recognition by effectively implementing its marketing strategy and advertising initiatives;
- maintain and improve its competitive position with existing and newly acquired brands, if any, in the channels in which it competes;
- identify and successfully enter and market its products in new geographic markets and market segments and categories;
- enter into successful arrangements with new retailers of its products;
- maintain and, to the extent necessary, improve PureKana's high standards for product quality, safety and integrity; and
- maintain sources for the required supply of quality raw ingredients and input products to meet growing demand.

PureKana may not be able to successfully implement its growth strategy and reach its revenue and profitability improvement targets.

Difficulty to Forecast

PureKana relies largely on its own market research to forecast industry trends and statistics as detailed forecasts are, with certain exceptions, not generally available from other sources. A failure in the anticipated demand for PureKana's products to materialize as a result of competition, technological change, change inthe regulatory or legal landscape or other factors could have a material adverse effect PureKana's business, financial condition and results of operations.

Key Officers and Employees

PureKana's success and future will depend, to a significant degree, on the continued efforts of its managers, officers and key employees, including certain technical individuals and sales and marketing personnel, the retention of which cannot be guaranteed. The loss of key personnel could materially adversely affect PureKana's business. The loss of any such personnel could harm or delay the plans of PureKana's business either while management time is directed to finding suitable replacements (who, in any event, may not be available), or, if not, covering such vacancy until suitable replacements can be found. In either case, this may have a material adverse effect on the future of PureKana's business. Competition for such personnel can be intense, and PureKana cannot provide assurance that it will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. From time to time, share-based compensation may comprise a significant component of PureKana's compensation for key personnel, and if the price of the shares declines, it may be difficult to recruit and retain such individuals. In addition, COVID-19 poses a risk to all of PureKana's activities, including the potential that a member of management may become negatively impacted by the virus and PureKana's ability to continue to rely on its key personnel throughout the pandemic. PureKana will diligently monitor developments relating to COVID-19 and its impact on PureKana's personnel, and make operational adjustments as necessary. Any of the foregoing risks or actions could disrupt PureKana's operations and have a material adverse effect on PureKana's results from operations and financial condition.

Obtaining Insurance

Due to PureKana's involvement in the hemp industry, it may have a difficult time obtaining the various insurances that are desired to operate its business, which may expose PureKana to additional risk and financial liability. Insurance that is otherwise readily available, such as general liability, may be more difficult to find, and more expensive, because of the regulatory regime applicable to the industry. There are no guarantees that PureKana will be able to find such insurance coverage in the future, or that the cost will be affordable. If PureKana is unable to obtain insurance coverage on acceptable terms, it may prevent PureKana from entering into certain business sectors, may inhibit growth, and may expose PureKana to additional risk and financial liabilities.

Additional Financings

If PureKana is not able to sustain profitability or if it requires additional capital to fund growth or other initiatives, it may seek additional equity or debt financing. There can be no assurances that PureKana will be able to obtain additional financial resources on favorable commercial terms or at all. Failure to obtain such financial resources could affect PureKana's plan for growth or result in PureKana being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on the business, results of operations and the financial condition of PureKana.

Management of Growth

PureKana may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls. The ability of PureKana to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of PureKana to deal with this growth may have a material adverse effect on PureKana's business, financial condition, results of operations and prospects. In addition, there are specific risks inherent in growth of PureKana's business-to-business and direct-to-consumer sales, including, among others, increased competition and risks related to the use of information systems.

Risks Related to Acquisitions and Partnerships

PureKana may acquire, partner or otherwise transact with other companies in the future and there are risks inherent in any such activities. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which PureKana is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect PureKana's financial performance and results of operations. PureKana could encounter additional transaction and integration related costs or experience an impact to its operations or results of operation as a result of the failure to realize all of the anticipated benefits from such acquisitions or partnerships, or an inability to successfully integrate an acquisition as anticipated. All of these factors could cause dilution to PureKana's earnings per share or decrease or delay the anticipated accretive effect of the acquisition or partnership and cause a decrease in the market price of PureKana's securities, or have a material adverse effect on PureKana's operations or results from operations. PureKana may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such acquired company with its existing operations. As a result of integration efforts, PureKana may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on PureKana's business, financial condition and results of operations. PureKana may experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration of any such acquired companies may also impose substantial demands on management of PureKana. There is no assurance that these acquisitions will be successfully integrated in a timely manner or without additional expenses incurred.

In respect of potential future acquisitions or partnerships, there can be no assurance that PureKana will be able to identify acquisition or partnership opportunities that meet its strategic objectives, or to the extent such opportunities are identified, that it will be able to negotiate acceptable terms.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, PureKana may disclose confidential information relating to the business, operations or affairs of PureKana. Although confidentiality agreements are to be signed by third parties prior to the disclosure of any confidential information, a breach of such confidentiality agreement could put PureKana at competitive risk and may cause significant damage to its business. The harm to PureKana's business from a breach of confidentiality cannot presently be quantified but may be material and may not be compensable in damages. There can be no assurance that, in the event of a breach of confidentiality, PureKana will be able to obtain equitable remedies, such as injunctive relief from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Inability to Protect Intellectual Property

PureKana's success is dependent upon its intangible property and technology. PureKana relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. PureKana relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by PureKana to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of PureKana's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to PureKana's. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, PureKana may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

PureKana's ability to successfully implement its business plan depends in part on its ability to obtain, maintain and build brand recognition using its trademarks, service marks, trade dress, domain names and other intellectual property rights, including PureKana's names and logos. If PureKana's efforts to protect its intellectual property are unsuccessful or inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on PureKana's business and might prevent its brands from achieving or maintaining market acceptance.

PureKana may be unable to obtain registrations for its intellectual property rights for various reasons, including refusal by regulatory authorities to register trademarks or other intellectual property protections, prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause PureKana to incur significant penalties and costs.

Intellectual Property Claims

Companies in the retail and wholesale consumer packaged goods industries frequently own trademarks and trade secrets and often enter into litigation based on allegations of infringement or other violations of intangible property rights. PureKana may be subject to intangible property rights claims in the future and its products may not be able to withstand any third-party claims or rights against their use. Any intangible property claims, with or without merit, could be time consuming, expensive to litigate or settle and could divert management resources and attention. An adverse determination also could prevent PureKana from offering its products to others and may require that PureKana procure substitute products or services.

With respect to any intangible property rights claim, PureKana may have to pay damages or stop using intangible property found to be in violation of a third party's rights. PureKana may have to seek a license for the intangible property, which may not be available on reasonable terms and may significantly increase operating expenses. The technology also may not be available for license at all. As a result, PureKana may also be required to pursue alternative options, which could require significant effort and expense. If PureKana cannot license or obtain an alternative for the infringing aspects of its business, it may be forced to limit product offerings and may be unable to compete effectively. Any of these results could harm PureKana's brand and prevent it from generating sufficient revenue or achieving profitability.

Litigation

PureKana may from time to time become party to litigation in the ordinary course of business which could adversely affect its business. Should any litigation in which PureKana is, or becomes, involved be determined against PureKana, such a decision could adversely affect PureKana's ability to continue operating and could use significant resources. Even if PureKana is involved in litigation and wins, such litigation could redirect significant PureKana resources. Litigation may also create a negative perception of PureKana's brand.

Trade Secrets may be Difficult to Protect

PureKana's success depends upon the skills, knowledge and experience of its scientific and technical personnel, consultants and advisors, as well as contractors. Because PureKana operates in a highly competitive industry, it relies in part on trade secrets to protect its proprietary products and processes. However, trade secrets are difficult to protect. Where PureKana considers it necessary, PureKana enters into confidentiality or non-disclosure agreements with its corporate partners, employees, consultants, outside scientific collaborators, developers and other advisors. These agreements generally require that the receiving party keep confidential, and not disclose to third parties, confidential information developed by the receiving party or made known to the receiving party by PureKana during the course of the receiving party's relationship with PureKana. These agreements also generally provide that inventions conceived by the receiving party in the course of rendering services to PureKana will be its exclusive property, and PureKana enters into assignment agreements to perfect its rights.

These confidentiality, inventions and assignment agreements, where in place, may be breached and may not effectively assign intellectual property rights to PureKana. PureKana's trade secrets also could be independently discovered by competitors, in which case PureKana would not be able to prevent the use of such trade secrets by its competitors. The enforcement of a claim alleging that a party illegally obtained and was using PureKana's trade secrets could be difficult, expensive and time consuming and the outcome could be unpredictable. Failure to obtain or maintain effective trade secret protection could adversely affect PureKana's competitive position.

Use of Customer Information and Other Personal and Confidential Information

PureKana collects, processes, maintains and uses data, including sensitive information on individuals, available to PureKana through online activities and other customer interactions with its business. PureKana's current and future marketing programs may depend on its ability to collect, maintain and use this information, and its ability to do so is subject to evolving international, U.S. and Canadian laws and enforcement trends. PureKana strives to comply with all applicable laws and other legal obligations relating to privacy, data protection and customer protection, including those relating to the use of data for marketing purposes. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another, conflict with other rules, conflict with PureKana's practices or fail to be observed by its employees or business partners. If so, PureKana may suffer damage to its reputation and be subject to proceedings or actions against it by governmental entities or others. Any such proceeding or action could hurt PureKana's reputation, force it to spend significant amounts to defend its practices, distract its management or otherwise have an adverse effect on its business.

Certain of PureKana's marketing practices rely upon e-mail, social media and other means of digital communication to communicate with consumers on its behalf. PureKana may face risk if its use of e-mail, social media or other means of digital communication is found to violate applicable laws. PureKana posts its privacy policy and practices concerning the use and disclosure of user data on its websites. Any failure by PureKana to comply with its posted privacy policy or other privacy-related laws and regulations could result in proceedings which could potentially harm its business. In addition, as data privacy and marketing laws change, PureKana may incur additional costs to ensure it remains in compliance. If applicable data privacy and marketing laws become more restrictive at the international, federal, provincial or state levels, PureKana's compliance costs may increase, its ability to effectively engage customers via personalized marketing may decrease, its investment in its e-commerce platform may not be fully realized, its opportunities for growth may be curtailed by its compliance burden and its potential reputational harm or liability for security breaches may increase.

Information Technology Systems and Data Security Breaches

PureKana's operations depend, in part, on how well it and its third party service providers protect networks, equipment, information technology ("IT") systems and software against damage from a number of threats, including, but not limited to, cable cuts, natural disasters, intentional damage and destruction, fire, power loss, hacking, phishing, computer viruses, vandalism and theft. PureKana's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact PureKana's reputation and results of operations.

PureKana or its third-party service providers collect, process, maintain and use sensitive personal information relating to its customers and employees, including customer financial data (e.g. credit card information) and their personally identifiable information, and rely on third parties for the operation of its ecommerce site and for the various social media tools and websites it uses as part of its marketing strategy. Any perceived, attempted or actual unauthorized disclosure of customer financial data (e.g. credit card information) or personally identifiable information regarding PureKana's employees, customers or website visitors could harm its reputation and credibility, reduce its e-commerce sales, impair its ability to attract website visitors, reduce its ability to attract and retain customers and could result in litigation against PureKana or the imposition of significant fines or penalties.

Recently, data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting new foreign, federal, provincial and state laws and legislative proposals addressing data privacy and security. As a result, PureKana may become subject to more extensive requirements to protect the customer information that it processes in connection with the purchase of its products, resulting in increased compliance costs.

PureKana's online activities, including its e-commerce websites, also may be subject to denial of service or other forms of cyber-attacks. While PureKana has taken measures to protect against those types of attacks, those measures may not adequately protect its online activities from such attacks. If a denial of service attack or other cyber event were to affect its e-commerce sites or other information technology systems, its business could be disrupted, it may lose sales or valuable data, and its reputation may be adversely affected. PureKana's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, PureKana may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Global Economic Uncertainty

Demand for PureKana's products and services are influenced by general economic and consumer trends beyond PureKana's control. There can be no assurance that PureKana's business and corresponding financial performance will not be adversely affected by general economic or consumer trends. In particular, global economic conditions remain constrained, and if such conditions continue, recur or worsen, this may have a material adverse effect on PureKana's business, financial condition and results of operations.

Furthermore, such economic conditions have produced downward pressure on the availability of credit for financial institutions and corporations. If current levels of market disruption and volatility continue, PureKana might experience reductions in business activity, increased funding costs and funding pressures, as applicable, a decrease in asset values, write-downs or impairment charges and lower profitability.

In addition, the outbreak of COVID-19 has resulted in governments worldwide enacting measures to combat the spread of the virus, including in the U.S. These measures, which include the implementation of travel restrictions, self-isolation measures, physical distancing and in some instances, the suspension of nonessential business, have caused material disruption to businesses globally, resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the response measures. 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 PureKana's business, operations and prospects, both in the short term and in the long term. Future crises may be precipitated by any number of causes, including natural disasters, public health crises, geopolitical instability, or sovereign defaults. These factors may impact PureKana's operations and the ability of PureKana to obtain equity or debt financing in the future and, if obtained, on terms favorable to PureKana. Increased levels of volatility and market turmoil can adversely impact PureKana's operations.

Emerging Industry

The industry in which PureKana operates is still new, and as a result, PureKana has limited access to industry benchmarks in relation to PureKana's business. Industry-specific data points such as operating ratios, research and development projects, debt structures, compliance and other financial and operational related data is limited and accordingly, management will be required to make decisions in the absence of such data points.

Risks Relating to the Company's Securities

United States Tax Classification of the Company

Although the Company is and will continue to be a Canadian corporation, the Company is expected to be treated as a United States corporation for United States federal income tax purposes under section 7874 of the Code, and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the Code to be treated as being resident of Canada under the Income Tax Act (Canada). As a result, the Company will be subject to taxation both in Canada and the United States which could have a material adverse effect on the business, financial condition or results of operations of the Company.

It is unlikely that the Company will pay any dividends in the foreseeable future on the Company Shares. However, dividends received by shareholders who are residents of Canada for purpose of the Income Tax Act (Canada) will be subject to U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the Canada-United States Tax Treaty. In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available.

Dividends received by U.S. shareholders will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax. Dividends paid by the Company will be characterized as U.S. source income for purposes of the foreign tax credit rules under the Code. Accordingly, U.S. shareholders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

Dividends received by shareholders that are neither Canadian nor U.S. shareholders will be subject to U.S. withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to a shareholder of the Company, subject to examination of the relevant treaty. These dividends may however qualify for a reduced rate of Canadian withholding tax under any income tax treaty otherwise applicable to a shareholder of the Company, subject to examination of the relevant treaty.

Because the Company Shares will be treated as shares of a U.S. domestic corporation, the U.S. gift, estate and generation-skipping transfer tax rules generally apply to a non-U.S. shareholder of Resulting Issuer Shares.

The Company May Issue Additional Equity Securities

Following completion of the Transaction, the Company may issue equity securities to finance its activities, including in order to finance acquisitions. If the Company were to issue additional equity securities, the ownership interest of existing shareholders may be diluted and some or all of the Company's financial measures on a per share basis could be reduced. Moreover, as the Company's intention to issue additional equity securities becomes publicly known, the Company's share price may be materially adversely affected.

There Has Been No Prior Public Market for the Company Shares

Prior to the Transaction, there has been no active public market for the Company Shares. An active trading market may not develop following completion of the Transaction or, if developed, may not be sustained. The lack of an active market may impair an investor's ability to sell its shares at the time he or she wishes to sell them or at a price that he or she considers reasonable. The lack of an active market may also reduce the fair market value of the Company Shares. An inactive market may also impair an investor's ability to raise capital by selling its Resulting Issuer Shares and may impair the Company's ability to acquire other companies by using the Company Shares as consideration.

The Value Assigned to PureKana May Be Incorrect

The valuation placed on PureKana for the purposes of the Transaction has been determined by negotiation among PureKana, AF1 and Heavenly. Among the factors included in determining valuation were the prospects for PureKana's business, the industry in which it competes and the prospects of developing earnings in the future. There can be no assurance that the number of AF1 Shares will not, in the fullness of time, prove to be excessive. If the market determines that the number of AF1 Shares is excessive, the market price of the Company Shares will be adversely affected.

Potential for Price Volatility

If the Transaction is completed, the market price of the Company Shares could be volatile and could be subject to further significant fluctuations due to changes in sentiment in the market regarding operations or business prospects, among other factors.

Among the factors that could affect the Company Share price are:

actual or anticipated fluctuations in the Company's quarterly financial and operating results that vary from the expectations of management or of securities analysts and investors;

- failure to meet the expectations of the investment community and changes in the investment community;
- recommendations or estimates of future operating results;
- announcements of strategic developments, acquisitions, dispositions, financings, product developments and other material events by the Company or competitors;
- regulatory and legislative developments;
- litigation;
- general market conditions;
- other domestic and international macroeconomic factors unrelated to the Company's performance;
- additions or departures of key personnel;
- sales or perceived sales of additional Resulting Issuer Shares;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.