THE HEMPSHIRE GROUP, INC.
(formerly Hoist Capital Corp.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and six months ended June 30, 2022, and 2021

August 29, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

*This Management's Discussion and Analysis (this "**MD&A**") provides a review of the results of operations, financial condition and cash flows for The Hempshire Group, Inc. (formerly Hoist Capital Corp.) ("**Hempshire**" or the "**Company**"), for the three and six months ended June 30, 2022, and 2021.*

*This document should be read in conjunction with the information contained in the Company's unaudited condensed interim financial statements and related notes for the three and six months ended June 30, 2022, and 2021 (the "**Financial Statements**"), which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). Unless otherwise indicated, all dollar ("**$**") and "USD" amounts and references in this MD&A are in U.S. dollars.*

*Unless otherwise stated, in preparing this MD&A the Company has taken into account information available to it up to the date of this MD&A, August 29, 2022, being the date the Company's board of directors (the "**Board**") approved this MD&A and the Financial Statements.*

Additional information about the Company is available on SEDAR at www.sedar.com and on the Company's website at www.hempshiregroup.com.

CAUTIONARY NOTE REGARDING FORWARD LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. Generally, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that infer actions, events or results with terminology such as "may", "could", "would", "might", "will be taken", "occur" or "be achieved". Statements containing forward-looking information are made as of the date of the MD&A and include, but are not limited to, statements with respect to: the Company's business, strategies, expectations, planned operations and future actions; the Company's intention and ability to grow its business, operations and product offerings through ecommerce, B2B sales and physical retailers, including branded products and private labelling; the competitive conditions of the industry in which the Company will operate and the competitive advantages of the Company; expectations regarding growth rates, growth plans and strategies; the management team and the performance thereof; the Company's commitment to environmental, social and governance principles; the competitive and business strategies of the Company; the Company's operations in the United States and internationally, and the characterization and consequences of those operations under federal United States law and applicable State law, and the framework for the enforcement of applicable laws in the United States and internationally; and the general economic, financial market, regulatory and political conditions in which the Company operates.

Forward-looking information is provided for the purposes of assisting the reader in understanding the Company and its business, operations, prospects and risks at a point in time in the context of historical and possible future developments and, therefore, the reader is cautioned that such information may not be appropriate for other purposes.

Forward-looking information is based upon numerous assumptions and is subject to a number of known and unknown risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to: risks associated with the hemp industry or smokable alternatives industry in general; the size of the emerging industrial hemp market; industry and intra-industry competition; changing consumer preferences and customer retention; unfavorable publicity or consumer perception; inability to sustain pricing models; constraints on marketing products; risks inherent in the agricultural business; actions and initiatives of federal, state and provincial governments and changes to government policies and the execution and impact of these actions, initiatives and policies; the Company's interpretation of and changes to federal and state laws pertaining to hemp; incorrect interpretation of the United States' *Agricultural Improvement Act of 2018*; international regulatory risks; uncertainty caused by potential changes to regulatory framework; regulatory approval and permits; environmental, health and safety laws; anti-money laundering laws and regulations; banking matters; ability to access public and private capital and banking services; denial of deductibility of certain expenses; liability for actions of employees, contractors and consultants; product viability; accuracy of quality control systems; product recalls, product liability and product returns; positive tests for tetrahydrocannabinol ("**THC**") or banned substances; reliance on key inputs; supply risk; reliance on third party suppliers, service providers and distributors; failure of counter-parties to perform contractual obligations; industry and intra-industry competition; changing consumer preferences and customer retention; unfavorable publicity or consumer perception; inability to sustain pricing models; reliance on key inputs; effectiveness and efficiency of advertising and promotional expenditures; retention and recruitment of key officers and employees; inability to renew material leases; obtaining insurance; management of growth; risks related to acquiring companies and entering partnerships; infringement on intellectual property; inability to protect intellectual property; intellectual property claims; litigation; trade secrets may be difficult to protect; data security breaches; global economic uncertainty; emerging industries; limited market for securities; financial reporting and public company obligations; and other factors more fully described from time to time in the reports and filings made by the Company with securities regulatory authorities.

In addition, Hempshire cautions that the current global uncertainty with respect to the spread of the COVID-19 virus and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on Hempshire remains unknown, rapid spread and evolution of the COVID-19 virus may continue to have a material adverse effect on global economic activity and may continue to result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to Hempshire.

Consequently, all of the forward-looking information contained herein is qualified by the foregoing cautionary statements, and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operation. Unless otherwise noted or the context otherwise indicates, the forward-looking information contained herein is provided as of the date hereof, and we do not undertake to update or amend such forward-looking information whether as a result of new information, future events or otherwise, except as may be required by applicable Canadian securities laws.

BUSINESS OVERVIEW

Background and Core Business

The Company was incorporated under the *Business Corporations Act* (Alberta) on April 2, 2018. The Company changed its name from "Hoist Capital Corp." to "The Hempshire Group, Inc." in connection with the closing of a reverse takeover transaction as described herein.

The Company's principal business activity is the production and distribution of CBD Hemp cigarettes. The Company's head office is located at 870 E Research Dr Ste 2, Palm Springs CA 92262 and registered office is located at 4300 Bankers Hall West, 88 – 3rd Street S.W., Calgary AB T2P 5C5.

The Company's common shares are traded on the TSX Venture Exchange (the "Exchange") under the symbol "HMPG".

Corporate Developments and Significant Mergers and Factors affecting Results of Operations

Strategic Merger – The Hempshire Group, Inc., Hoist Capital Corp. and Hoist Acquisition Corp.

On June 24, 2022, the Company completed a reverse takeover transaction pursuant to which: (i) Hoist Capital Corp. ("**Hoist**"), a capital pool company under Policy 2.4 of the Corporate Finance Manual of the Exchange, acquired each issued and outstanding common share in the capital of The Hempshire Group Inc. ("Hempshire U.S."), a Wyoming corporation, including the shares issued pursuant to the Financing (as defined below), in exchange for the issuance of 5.0 common shares in the capital of Hoist (after giving effect to a concurrent consolidation of the Hoist shares at a ratio of one post-consolidation Hoist share for every four (4) pre-consolidation Hoist shares); and (ii) Hoist and Hempshire U.S. completed a business combination which constituted Hoist's Qualifying Transaction, as such term is defined under Policy 2.4 of the Exchange (collectively, the "Transaction").

In connection with the Transaction, Hempshire U.S. completed a private placement financing of units, consisting of common shares and warrants, for gross proceeds of approximately $3.5 million (CDN $4.5 million) (the "**Financing**").

The Company created from the combination of Hoist and Hempshire U.S. is positioned to be a market leader of non-tobacco and non-nicotine smokable alternative products and is continuing the business previously carried on by Hempshire U.S. as a Tier 2 Life Sciences issuer under the policies of the Exchange.

On August 11, 2022, the Company's common shares commenced trading on the Exchange under the new stock symbol HMPG.

Prior to the completion of the Transaction, Hoist did not carry on a business, other than the identification and evaluation of businesses or assets with a view to completing a Qualifying Transaction. As such, the Transaction did not have a material impact to Hempshire regarding its financial performance and cash flows. Hoist did, however, have positive working capital, which was contributed to the Company, although the costs of the Transaction mitigated the impact of this working capital contribution to the Company. This MD&A is based on the financial statements of Hempshire U.S. as the reverse takeover acquirer under the Transaction.

Management Team Updates

Effective as of June 24, 2022, the Company is led by the management team of Hempshire U.S., consisting of the following individuals: Martin Marion (President, Chief Executive Officer and Director); Bill Hahn (Chief Financial Officer); Eric Starr (Chief Marketing Officer); and Tom Shuman (Chief Operating Officer). In addition, in connection with the completion of the Transaction on June 24, 2022, Martin Marion, Jeff Ragovin, Gail Hannon and Samuel Isaac were appointed to the Company's board of directors.

Second Quarter 2022 Highlights

The Company's revenue for the three months ended June 30, 2022, decreased 86% from the comparative period of Hempshire U.S. due to the effect of initial sales orders from Switzerland during the second quarter of 2021 which accounted for $90,767 of the $139,807 in revenue reported during that period. In addition, 2021 included both domestic wholesale orders and ecommerce sales whereas in the second quarter of 2022, sales were only generated through ecommerce.

Gross margins were negative during the second quarter of 2022 due to a write-down of $24,966 in relation to finished goods inventory that did not meet the Company's quality standards due to a formulation error during manufacturing. Gross margin of 34% in the comparative period was reflective of lower prices due to the large number of sales generated through wholesale and distribution channels.

The Company's second quarter 2022 net loss and comprehensive loss increased to $4.1 million from a loss of $0.6 million from the same period in 2021 as a result of significant costs incurred in connection with the Transaction. In addition, the Company hired additional employees and consultants, increasing general and administrative costs as part of gearing up for future growth and preparing for the Transaction. The Company also incurred higher financing related costs associated with the issuance of convertible debentures in the second half of 2021.

During the second quarter, the Company received proceeds of $141,533 in short term notes payable as interim funding to support operating and corporate costs in advance of the Transaction. All amounts owing under the notes payable as of the date of this MD&A were repaid in full by way of the CAD $4.5 million in proceeds generated from the Financing. Prior to the closing of the Transaction, the Company issued $0.1 million in notes receivables to related parties which remain outstanding.

OUR PRODUCTS AND PROPRIETARY PROCESS

The Company is a nicotine-free and tobacco-free smokable alternatives company. The Company formulates products made from organic hemp, organic mullein, organic sage, or a combination of such ingredients, which are manufactured into a smokable stick, like a traditional cigarette, providing a smokable alternative to traditional tobacco and nicotine cigarettes.

Hempshire formulates and markets its own proprietary brands under:

(i) MOUNTAIN® Smokes brand name, including:

*MOUNTAIN® Originals Cannabidiol ("**CBD**") Hemp Smokes*

CBD Hemp Smokes with <0.3% THC and consist of 12 stock-keeping units ("SKUs") which include Natural, Mint Squeeze™ and Pineapple Squeeze™ flavors, and have varying levels of CBD content. The Squeeze™ products have a novel essence capsule built into the filter for an intense burst of flavor if desired. The product contains only organic hemp flower, organic mullein, and organic sage, with no fillers, preservatives or added chemicals.

MOUNTAIN® Zeros™ CBD Hemp Smokes

CBD Hemp Smoke with a non-detectible, <0.0001%, THC level and low cannabis odor, aimed at consumers who desire a CBD Hemp Smoke experience but cannot risk testing positive for THC ingestion.

(ii) Additional proprietary brands under development.

Hempshire has additional CBD Hemp Smokes under research and development with varying levels of CBD, as well as an herbal smokable line to address the range of regulations of smokable alternatives to tobacco and nicotine in jurisdictions around the world.

Hempshire also provides private white-labelling services and contract manufacturing services, through its partners, for non-owned CBD Hemp Smoke brands in the United States and internationally.

Hemp smokables remain a relatively new, semi-regulated market. As products are still early in the consumer adoption stage, new companies have a chance to compete based on product quality, branding, service, and niche. Currently, hemp smokables are not subject to the same levels of regulation as tobacco cigarettes, however there are a series of bills that are currently circulating throughout certain state governments in the United States regarding the legality of the possession, sale and consumption of smokable hemp flower.

Distribution

Hempshire's products are sold D2C through its MountainSmokes.com website. During the second quarter of 2022, the Company completed the rebuild, and launched an updated version of the website which is a fully featured, conversion-optimized e-commerce website that enhances the customer experience. The new website includes a loyalty rewards program and incorporates a private portal for wholesaler, distributor and retailer sales. In addition to D2C marketing, Hempshire is in the process of building out its business to business ("**B2B**") sales channel through wholesale distributors and retailers in the United States and worldwide, with a particular focus on convenience stores ("**C-Stores**"), smoke shops and dispensaries. On an ongoing basis, Hempshire is participating in industry trade shows, events and conventions in the convenience store and cannabis industries where Hempshire staffs a booth, distributes samples of its products, and acquires leads to be followed up with post-event.

Hempshire intends to expand its United States domestic presence through the use of highly targeted databases which will provide Hempshire with store names and addresses, contact names, and contact phone numbers for virtually every convenience store, dispensary, CBD store, and smoke shop in the United States, on a city-by-city basis. The Company will utilize managements' existing industry-leading retail relationships, as well as direct outbound calling, mail, email, and both offline and online advertising to reach targeted retailers in "high value" cities, being those with large populations in states where cannabis and/or hemp has been legalized for sale and consumer use.

The Company has commenced distribution of its products in Switzerland, New Zealand and South Africa and is in discussions for distribution in multiple additional jurisdictions. Building upon previous sales in Switzerland, Hempshire will focus on expanding its presence in Europe through its existing international distribution relationships. Hempshire's objective is to achieve first-mover advantage across the European Union. Hempshire continues to have open dialogue with wholesalers, distributors and retailers in jurisdictions around the world to gain access to additional markets and distribute its products. To date, all Hempshire's products are manufactured in the United States and shipped to international jurisdictions upon order and payment.

Manufacturing & Logistics

Hempshire has established relationships with multiple organic hemp farmers and hemp wholesalers/distributors within the United States who are in full compliance with the United States' *Agriculture Improvement Act of 2018* (the "**USDA 2018 Farm Bill**"), to procure a supply of high-quality, CBD-rich hemp flower at competitive prices. All ingredients are sourced entirely in the United States, including organic hemp, organic mullein and organic sage from suppliers of these herbs, and all elements of production (filters, rolling paper, soy-based inks) are also sourced in the United States. Packaging is designed in-house and printed locally in California.

Hempshire's smokes are currently manufactured by a third-party service provider located in California that provides manufacturing capacity of 1,500,000 smokes per day to Hempshire, with the ability to provide further capacity at a minimal additional capital expense to Hempshire. The Company's outsourcing strategy allows it to minimize raw material supply chain risk, reduce its capital expenditures, and allows it to focus on branding and marketing.

OUTLOOK

During the second quarter, Hempshire has reached numerous milestones including the following:

- the completion of the Transaction;
- the completion of the Financing for gross proceeds of CAD $4.5 million;
- the addition of a Chief Financial Officer and appointment of board members; and
- the launch of a new, fully featured, conversion-optimized e-commerce website that enhances the customer experience, launches a loyalty rewards program, and incorporates a private portal for wholesaler, distributor and retailer sales.

Moving forward, based on the Company's marketing and branding expertise, product quality, addressable target markets, tightening government restrictions for tobacco and nicotine, and changing consumer preferences, Hempshire has laid out the following four initial strategic initiatives in its effort to penetrate the smokable alternatives market:

- **Establish Brand Awareness and Sales Growth in the United States** – With the use of proceeds from the recent equity financing, Hempshire's focus will be to continue to build brand awareness of, and consumer demand for, its flagship MOUNTAIN® Smokes line of organic Hemp Smokes. The Company will be focusing these efforts through the following primary sales channels:

    - *Domestic Wholesale B2B Sales* – The Company plans to leverage its industry leading retail relationships in key designated market areas to facilitate wholesale sales programs that result in the placement of MOUNTAIN® Smokes on retailer shelves across the United States.

    - *Ecommerce* – In July 2022, Hempshire released a fully featured, conversion-optimized ecommerce website (https://mountainsmokes.com) that provides incentives for fast path-to-purchase and includes a unique loyalty rewards program. The website facilitates direct-to-consumer sales and includes a private portal for wholesaler, distributor, and retailer sales. The Company's objectives through the website are to (i) facilitate initial D2C sales growth, and (ii) to obtain actionable data about this emerging consumer market which will be utilized to refine ongoing marketing and sales tactics. Specifically, the Company is focused on the consumers' ability to experience the product quickly, while capturing upsell opportunities to maximize Average Order Value (AOV) and Lifetime Value (LTV), two key ecommerce metrics.

- **Position for International Growth** – Building upon previous sales in Switzerland, Hempshire will focus on expanding its presence in Europe through its existing international distribution relationships. Hempshire will continue with its initial objective of achieving first mover advantage across the large European and EU markets.

- **White Label and Partnerships** – Hempshire will continue to build out its white labelling and contract manufacturing collaborations by pursuing partnerships with well-known brands and select artists and celebrities. The Company believes that its internal marketing and branding expertise, along with its ability to formulate high quality smokable alternatives, will attract these opportunities.

- **Position Production Capabilities to Scale Quickly and Profitably** – The Company will concentrate on expanding its supply chain network, becoming incrementally focused on demand-driven planning. Hempshire will seek to adequately supply its growth plan without over-extending inventory levels to maintain optimal use of cash. Hempshire management believes that the Company will be able to further improve margins through economies of scale.

Hempshire believes it has established the foundation and infrastructure to pursue its long-term vision of becoming a global leader in the non-tobacco and non-nicotine smokable alternatives market.

SELECTED FINANCIAL INFORMATION

Below is a summary of selected financial information for three and six months ended June 30, 2022, and 2021, as expressed in U.S. dollars, and in accordance with IFRS:

	For the three months ended June 30		For the six months ended June 30	
	2022	**2021**	**2022**	**2021**
Revenue	**19,572**	139,807	**42,961**	161,474
Total comprehensive loss	**(4,053,294)**	(596,590)	**(4,722,432)**	(829,852)
Total assets	**3,706,142**	387,048	**3,706,142**	387,048
Weighted average number of shares outstanding	**53,878,500**	48,002,421	**52,885,766**	47,344,958
Basic and diluted loss per Common Share	**(0.08)**	(0.01)	**(0.09)**	(0.02)

DISCUSSION OF OPERATIONS

The Company's revenue for the three and six months ended June 30, 2022, decreased 86% and 73% from the respective comparative periods due to the effect of initial sales orders from Switzerland during the second quarter of 2021 which accounted for an additional $90,767 in revenue. In addition, stronger U.S. domestic sales were driven by large retail orders combined with ecommerce sales in 2021 versus sales only generated through ecommerce sales during the first and second quarters of 2022.

Gross margins were negative during the second quarter of 2022 and reduced to 8% for the six months ended June 30, 2022, due to the impact of a write-down of $24,966 in relation to finished goods inventory that did not meet the Company's quality standards due to a formulation error during manufacturing. Margins of 34% and 35% in the comparative periods are reflective of lower prices due to the large number of sales generated through wholesale and distribution channels.

(Expressed in U.S. dollars except where otherwise noted)

Operating expenses for the three months ended June 30, 2022, decreased 18% from the comparative quarter due to a combination of lower share-based compensation expense due to fewer shares issued for services. Lower sales and marketing expenses were driven by a reduction in traditional advertising costs in favor of supporting a lower cost alternative to align with its ecommerce-based sales strategy. These reductions were partially offset by higher general and administrative costs due to the addition of staff and increased professional fees as the Company positions itself for growth. For the six months ended June 30, 2022, operating expenses increased 17% primarily due to an increase in share-based compensation due to the cumulative impact of shares issued during the six-month period of 2022 exceeding the amount earned in the comparative period. Sales and marketing cost decreases and general and administrative cost increases during the six months ended June 30, 2022, versus the same period last year were for the same reasons as described for the quarter over quarter differences.

Listing costs of $3.7 million incurred during the three and six months ended June 30, 2022, were in relation to the impact of the closing of the Transaction. Interest expenses of $108,981 and $240,663 during the three and six months ended June 30th increased from nil in 2021 mainly due to increased financing costs and non-cash fair value adjustments associated with the issuance of convertible debentures and warrants.

QUARTERLY HIGHLIGHTS

The following financial data for each of the eight most recently completed quarters has been prepared in accordance with IFRS.

	For the three months ended (unaudited)			
	June 30, 2022	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**
Revenue	**19,572**	23,389	76,121	48,756
Total comprehensive loss	**(4,053,294)**	(669,138)	(1,025,492)	(308,040)
Weighted average number of shares outstanding	**53,878,500**	51,886,835	51,288,965	50,343,205
Basic and diluted loss per Common Share	**(0.08)**	(0.01)	(0.02)	(0.01)

	For the three months ended (unaudited)			
	June 30, 2021	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**
Revenue	139,807	21,667	213,284	3,833
Total comprehensive loss	(596,590)	(233,262)	(10,134)	(82,079)
Weighted average number of shares outstanding	48,002,421	46,680,190	44,503,255	43,397,640
Basic and diluted loss per Common Share	(0.01)	(0.01)	0.02	(0.01)

The Company's sales have continued to be sporadic as a result of its concentration of only a few wholesale customers and based on the timing of their orders and the fulfillment of those orders. However, the Company's D2C sales have steadily increased.

(Expressed in U.S. dollars except where otherwise noted)

The increased comprehensive loss for each quarter can be attributed to increased marketing, consulting fees and salaries and wages in preparation for future growth and for the Transaction with higher losses incurred starting in Q4 2021 due to increased financing costs and fair value adjustments associated with the issuance of convertible debentures and warrants. Losses increased significantly in the second quarter of 2022 due to listing expenses incurred in connection with the Transaction.

FINANCIAL CONDITION

Readers should refer to Note 1 to the Annual Financial Statements regarding the going concern assumption in conjunction with the discussion below.

The following chart highlights significant changes in the Statements of Financial Position from December 31, 2021, to June 30, 2022.

Line item	Increase (decrease)	Primary factors explaining the year over year changes
Current assets	2,966,507	Primarily due to the increase in cash in connection with the Transaction which included CAD $4.5 million in proceeds from the Financing which was partially offset by lower inventory due to sales and inventory write-downs.
Notes receivable from related parties	78,658	Primarily due to advances made to key management personnel of the Company.
Property and equipment	(6,474)	Result of depreciation for the period partially offset by the purchase of computer equipment during the first quarter of 2022.
Right-of-use asset and security deposit	(10,792)	Result of depreciation for the period.
Accounts payable and accrued liabilities	490,961	Increase is due to an increase in payables over 90 days due to limited cash resources prior to the closing of the financing on June 24, 2022. In addition, accrued liabilities increased due to transaction costs incurred but not yet paid in connection with the closing of the Transaction.
Convertible debentures	(480,153)	Decreased to nil in connection with the conversion of all convertible debt into shares upon closing of the Transaction.
Derivative liabilities	(499,668)	Decreased to nil in connection with the conversion of all convertible debt into shares upon closing of the Transaction. In addition, all outstanding warrants were revalued on the date of the Transaction and reclassified to equity in accordance with IFRS as the warrants met the "fixed for fixed" criteria for equity classification.
Notes payable	30,000	Increased due to interest penalty incurred during the first quarter. After June 30, 2022, all notes payable amounts outstanding were repaid in full.
Current and long-term lease liabilities	(10,535)	Result of long-term rental lease payments during the quarter and foreign exchange adjustments.
Equity	3,497,294	Increase is due to increases in share capital, warrants and unit obligations in connection with the financing proceeds, conversion of debt to shares, issuance and reclassification of warrants and issuance of advisory notes all in connection with the Transaction. These increases were largely offset by net losses incurred for the period.

LIQUIDITY AND CAPITAL RESOURCES

The continuing operations of the Company are dependent upon its ability to continue to generate revenue and commence profitable operations in the future and to repay its liabilities arising from normal business operations as they come due. While the Company has been successful in securing financing in the past, there is no assurance that it will be able to do so in the future. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. See Note 1 to the Financial Statements.

As at June 30, 2022, the Company had cash of $3.1 million, (December 31 2021 – $0.1 million) and a non-cash working capital deficit of $0.6 million (December 31, 2021 – $0.1 million). Non-cash working capital is a Non-GAAP financial measure and is defined by the Company as the sum of accounts receivable, inventory, prepaids, accounts payable and accrued liabilities, and deferred revenue. Non-GAAP financial measures do not have a standardized meaning prescribed by generally accepted accounting principles ("GAAP") and, therefore, may not be comparable with the calculation of similar measures by other companies. Management uses non-GAAP measures for its own performance measurement and to provide shareholders and investors with additional measurements of the Company's efficiency and its ability to fund a portion of its future capital expenditures.

During the six months ended June 30, 2022, the Company received proceeds of $0.4 million upon the issuance of additional short-term notes payable to support interim funding of operations prior to the completion of the Transaction. Upon closing of the Transaction, which included the receipt of $3.5 million in proceeds from the financing, the $0.4 million in additional notes payable were repaid in full. Subsequent to the end of the second quarter, the remaining $0.2 million in outstanding notes payable were repaid in full and all overdue payables were settled in cash from the proceeds of the Financing.

Risk Management

Hempshire may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

(a) *Credit risk*

Credit risk is the risk that the counterparty to which the Company provides goods or services will be unable or unwilling to fulfill their obligations or pay any amounts owed to the Company. Hempshire limits its exposure to credit losses by requiring all wholesale orders to be paid in full in advance of product being shipped.

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of liquid financial assets, including cash. Hempshire limits its exposure to credit losses by placing its cash with well-rated financial institutions

(b) *Concentration risk*

In the past, the Company has been dependent on a small number of wholesale customers for the majority of its sales revenue. Approximately half of the Company's revenue has historically come from sales to wholesale customers, with the remaining half from retail customers.

(c) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Specific liquidity risk is discussed in the Company's Financial Statements. See "Liquidity and Capital Resources" section for additional details.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions. The Company operates in an industry regulated by the department of the US federal government which is responsible for national health policy. Changes in legislation could have a significant impact on the Company's operations.

Market risk is comprised of three types of market price changes:

- Foreign currency exchange risk. The Company is exposed to foreign currency exchange rate fluctuations with respect to its convertible debentures, which are denominated in CAD.
- Commodity price risk, which the Company is not exposed to; and
- Interest rate risk, which is the risk of change in the borrowing rates of the Company. As the Company does not have any exposure to changes in interest rates, it is not exposed to this risk.

CASH FLOWS BY ACTIVITY

The table below outlines a summary of cash inflows and outflows by activity for the six months ended June 30, 2022, and 2021.

	Six months ended June 30,	
	2022	**2021**
Net cash used in operating activities	(399,169)	(353,056)
Net cash used in investing activities	(74,271)	(65,275)
Net cash provided by financing activities	3,467,671	413,661
Net change in cash	2,994,231	(4,670)

Cash used in Operating Activities

The significant factors related to cash used in operating activities for both periods was driven by selling, marking, general and administrative cash costs and listing expense cash costs more than offsetting gross profits during the period.

Cash used in Investing Activities

Cash used in investing activities for both periods was driven by related party advances.

Cash provided by Financing Activities

Cash provided by financing activities during the first half of 2022 primarily resulted from the proceeds received from the financing in connection with the Transaction as well as the issuance of short-term notes payable used for interim funding of operations up to the Transaction date. Increase in cash in the comparative 2021 period was driven by share issuances.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

The significant accounting policies adopted and applied by the Company, and the significant judgments and estimates pertaining to the three and six months ended June 30, 2022, and 2021, are outlined in the notes to the 2021 Annual Financial Statements.

(Expressed in U.S. dollars except where otherwise noted)

RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and initially measured at fair value. The Company has identified directors and senior officers as key management personnel. The Company recognized the following transactions with related parties:

Consulting fees

- For the six months ended June 30, 2022, $76,091 (six months ended June 30, 2021 – $55,737) was paid in consulting fees to a former senior officer and major shareholder of the Company.

Advances

- During the six months ended June 30, 2022, the Company advanced $71,329 to a former senior officer and major shareholder of the Company which was formalized with a note receivable under the same terms as those disclosed in the annual audited financial statements for the year ended December 31, 2021, for this related party bringing the total principal amount outstanding to $236,163. Subsequent to June 30, 2022, pursuant to the terms of the note receivable, the notes matured concurrent with the Company's first day of trading on a public exchange, yet the amounts remain outstanding as the Company is currently negotiating a repayment plan with the related party.

- Interest income of $7,328 and $nil was recognized for the six months ended June 30, 2022, and 2021 relating to these notes receivable, respectively.

OFF BALANCE SHEET ARRANGEMENTS

As at June 30, 2022 the Company had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

OUTSTANDING SHARE DATA

As of the date of the MD&A, the Company had outstanding:

	Number of instruments outstanding as of date of MD&A[1]
Common shares	79,583,905
Warrants	23,410,977
Stock Options	280,000
Advisory notes	8,733,980

The advisory notes were issued to an arm's length third party, in connection with the advisor fee earned upon closing of the Transaction. The advisory notes shall be convertible into units, which each consist of one common share and one common share purchase warrant, subject to a restriction on conversion to the extent that any such conversion would result in the combined share ownership of the third party and its principals exceeding 9.99% of the issued and outstanding common shares at such time. The advisory notes have been recorded as a unit obligation under the equity section in the June 30, 2022 statement of financial position.

RISK FACTORS

Hempshire's business, operating results and financial condition could be adversely affected by any of the risks outlined and discussed below or in the filing statement of the Company dated June 22, 2022 and available on www.sedar.com. Prior to making an investment decision, investors should consider the investment risks set out below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business at an early stage of development. The directors of the Company consider the risks set out below to be the most significant to potential investors in the Company but are not all of the risks associated with an investment in securities of the Company. If any of these risks materialize into actual events or circumstances or other possible additional risks and uncertainties of which the directors are currently unaware, or which they consider not to be material in relation to the Company's business, actually occur, Hempshire's assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects, are likely to be materially and adversely affected. In such circumstances, the price of the Company's securities could decline, and investors may stand to lose all or part of their investment.

Regulatory Risks

Some of the activities of the Company are or will be subject to regulation by governmental authorities, which may include, but are not limited to the various state departments of agriculture, U.S. Food and Drug Administration, USDA, and/or Drug Enforcement Administration, Health Canada, the European Commission, the Good Standards Agency in the United Kingdom, the Australian Register of Therapeutic Goods, the Mexican Federal Commission, the South African Health Products Regulatory Authority. The Company's business objectives are, in part, contingent upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the cultivation and sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to produce or sell industrial hemp products. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of industrial hemp, or more stringent implementation thereof, could have a substantial adverse impact on the Company.

Limited Operating History

Hempshire was founded in 2019 and has generated minimal revenue. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources, and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Reliance on Management

The Company is currently in good standing with all high-level employees and believes that with well-managed practices it will remain in good standing. The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results, or financial condition.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes, public perception and health risks associated with inhalable products, and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses, and possible legal liability. Although the Company maintains and intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company will be an Entrant Engaging in a New Industry

The non-tobacco cigarette industry is relatively new. There can be no assurance that an active and liquid market for the Company's shares will develop, and shareholders may find it difficult to resell their shares. Accordingly, no assurance can be given that Hempshire will be successful in the long term.

Expansion into Foreign Jurisdictions

The Company's expansion into jurisdictions outside of the United States is subject to risks. In addition, in jurisdictions outside of the United States, there can be no assurance that any market for the Company's products will develop. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations, and the effects of competition. These factors may limit the Company's ability to successfully expand its operations into such jurisdictions and may have a material adverse effect on the Company's business, financial condition and results of operations.

Difficulty to Forecast

The Company must rely largely on its own market research to forecast sales, as detailed forecasts are not generally obtainable from other sources in the early stages of the industrial hemp and smokable alternatives industries. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company 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 the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations, and prospects.

Internal Controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's financial statements and have a materially adverse effect on the trading price of the Company's shares.

Product Liability

As a seller of products designed to be ingested and/or inhaled by humans, Hempshire will face an inherent risk of exposure to product liability claims, regulatory action and litigation if the products it sells are alleged to have caused significant loss or injury. Previously unknown adverse reactions resulting from human consumption, ingestion or inhalation of CBD, hemp, sage or mullein products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including but not limited to the following: the products it sells caused injury or illness; the products contained inadequate instructions for use; and the products contained inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on its operations and the financial condition of the business. There can be no assurances that the Company or its suppliers will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available on acceptable terms or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's products.

Need for Additional Financing and Possible Effects of Dilution

The Company may issue equity securities to finance its activities, including future acquisitions. If the Company were to issue additional shares, existing holders of the Company's shares may experience dilution in their holdings. Moreover, when Hempshire's intention to issue additional equity securities becomes publicly known, the Company's share price may be adversely affected.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be finalized against the Company, such a decision could adversely affect the Company's ability to continue operating, as well as the market price for Hempshire Shares, and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Unfavourable Publicity or Consumer Perception

Any adverse or negative publicity, scientific research, limiting regulations, medical opinion, and public opinion relating to the consumption of non-tobacco combustible products and CBD may have a material adverse effect on the Company's operational results, consumer base, and financial results. In addition, the success of the industrial hemp and cannabis industry may be significantly influenced by the public's perception of CBD, hemp, the safety, efficacy and quality of ingredients, and ingestible and/or inhalable products, generally. Hemp, CBD and inhalable products are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to hemp, CBD or inhalable products will be favourable.

Fluctuating Prices of Raw Materials

The Company's revenues, if any, are expected to be derived largely from the production, sale, and distribution of products in the smokable alternatives space. Changes in the price for processed biomass between the purchase from farmers and sale to customers cannot be predicted with any level of certainty.

Global Economy Risk

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. The Company will be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, Hempshire is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favourable to Hempshire and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's operations, and the trading price of its shares.