



SLANG
WORLDWIDE

**SLANG WORLDWIDE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

DATED APRIL 26, 2023

SLANG Worldwide Inc. Management's Discussion and Analysis

The following Management's Discussion and Analysis ("**MD&A**") should be read in conjunction with SLANG Worldwide Inc.'s (the "**Company**", the "**Corporation**", "**SLANG**", "**we**", "**our**") audited consolidated financial statements and notes for the years ended December 31, 2022 and 2021 (the "**Financial Statements**"). This MD&A was prepared with reference to the MD&A disclosure requirements set out by National Instrument 51-102 – *Continuous Disclosure Obligations* ("**NI 51-102**"). The Financial Statements, together with this MD&A are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to future performance. Results are reported in Canadian dollars, unless otherwise noted. The Financial Statements are prepared in accordance with International Financial Reporting Standards ("**IFRS**"). Information contained herein is presented as of April 26, 2023, unless otherwise indicated. The Financial Statements and related notes, and this MD&A, have been reviewed by the Company's Audit Committee and approved by the Board (as defined herein) on April 26, 2023.

Cautionary Note Regarding Forward-Looking Statements

This MD&A contains certain information that may constitute "forward-looking information" and "forward-looking statements" which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. Such statements can be identified by the use of forward-looking terminology such as "expect", "likely", "may", "will", "should", "intend", or "anticipate", "potential", "proposed", "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets or other statements that are not statements of fact. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to:

- SLANG's business plan and growth strategy;
- changes in laws, regulations and guidelines;
- the impact of COVID-19;
- outlooks regarding future financial position and cash flow; and
- SLANG's ability to compete.

Certain of the forward-looking statements and forward-looking information and other information contained herein concerning the cannabis industry and the general expectations of SLANG concerning the cannabis industry and concerning SLANG are based on estimates prepared by SLANG using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which SLANG believes to be reasonable. While SLANG is not aware of any misstatement regarding any industry or government data presented herein, the cannabis industry involves risks and uncertainties that are subject to change based on various factors and SLANG has not independently verified such third-party information.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. In

particular, but without limiting the foregoing, disclosure in this MD&A may make reference to or involve forward-looking statements. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. See “Risk Factors” in this MD&A. The purpose of forward-looking statements is to provide the reader with a description of management’s expectations, and such forward-looking statements may not be appropriate for any other purpose. Accordingly, readers should not place undue reliance on forward-looking statements contained in this MD&A. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

Overview

This overview summarizes the MD&A, which includes the following sections:

1. Highlights — a summary of highlights from the Financial Statements and recent developments.
2. Our Business — a general description of our business including an overview of priorities and plans to achieve our objectives.
3. Results and Outlook — an overview of our financial position, key performance indicators and results; an analysis of our cash flows; and the outlook for the future.
4. Resources, Relationships and Risk — a discussion of all significant resources and relationships needed to deliver results and the risks that can affect achieving these results.

1. Highlights

During the year ended December 31, 2022:

- Revenue from continuing operations for the year ended December 31, 2022 (“**FY 2022**”) was \$38.19 million, compared with \$37.78 million in the year ended December 31, 2021 (“**FY 2021**”), representing an 1% increase year-over-year. The primary drivers of the increase were the recognition of a full year of revenue from the acquisition of High Fidelity, Inc. (“**HiFi**”) in Vermont, offset by a reduction in revenue resulting from shifting Oregon from a Core Market to an Emerging Market which was completed in Q4 2021, and a reduction in Emerging Market sales.
- Vermont regulators issued a retail marijuana license to the Company on September 28, 2022, allowing the Company to open its CERES Collaborative dispensary on October 1, 2022, Vermont’s first recreational cannabis store.
- Gross profit of \$16.45 million (43% gross margin) in FY 2022, compared with \$15.13 million (40% gross margin) in FY 2021, representing a 9% increase year-over-year. Gross profit before fair value of biological assets was \$17.62 million (46% gross margin) in FY 2022, compared with \$14.47 million (38% gross margin) in FY 2021, representing a 22% increase year-over-year.
- Adjusted EBITDA¹ of (\$3.65 million) in FY 2022, compared with (\$5.63 million) in FY 2021. The improvement in Adjusted EBITDA is primarily attributable to a \$3.16 million increase in gross profit

before fair value adjustments on biological assets, offset by an increase in operating expenditures related to HiFi, which is not presented in the comparative period before August 11, 2021.

- EBITDA¹ of (\$8.71 million) in FY 2022, compared with (\$17.49 million) in FY 2021. The improvement in EBITDA is primarily attributable to a decrease in operating expenditures (excluding depreciation and amortization) of \$7.41 million and an increase in gross profit of \$1.32 million.
- \$11.9 million in cash and restricted cash on December 31, 2022, compared to \$20.83 million on December 31, 2021.

During the three months ended December 31, 2022:

- Revenue from continuing operations for the three months ended December 31, 2022 (“**Q4 2022**”) was \$11.78 million, compared with \$8.84 million in the three months ended December 31, 2021 (“**Q4 2021**”), representing an 33% increase year-over-year. The primary drivers of the increase were due to an increase in our Core Market sales (as defined herein) of \$0.46 million in Colorado and \$3.37 million in Vermont, offset by a decrease in our Emerging Market sales of \$0.86 million.
- Gross profit of \$4.70 million (40% gross margin) in Q4 2022, compared with \$4.10 million (46% gross margin) in Q4 2021, representing a 6% decrease year-over-year. Gross profit before fair value of biological assets was \$5.70 million (48% gross margin) in Q4 2022, compared with \$3.34 million (38% gross margin) in Q4 2021, representing a 71% increase year-over-year.
- Adjusted EBITDA¹ of (\$0.06 million) in Q4 2022, compared with (\$2.90 million) in Q4 2021. The improvement in Adjusted EBITDA is primarily attributable to a \$2.36 million increase in gross profit before fair value adjustments on biological assets and decreases in consulting and subcontractor operating expenditures.
- EBITDA² of (\$1.82 million) in Q4 2022, compared with (\$4.87 million) in Q4 2021. The improvement in EBITDA is primarily attributable to an increase in gross profit of \$0.60 million and decreases in operating expenditures consisting mainly of consulting and subcontractors, share based payments, and expected credit losses.

2. Our Business

SLANG is a leading cannabis consumer packaged goods company with a portfolio of renowned brands. The Corporation currently owns, licenses, and/or markets 6 brands which serve the following categories: flower, inhalable concentrates, and ingestibles. SLANG brings these products to market through three channels:

1. Core Markets – Colorado and Vermont
2. Emerging Markets – Strategic Partnerships in 11 States
3. THC Free – Distribution & Ecommerce

Core Markets

SLANG defines Core Markets (“**Core Markets**”) as those with the following characteristics: (i) mature regulatory structure, (ii) favorable tax regime, (iii) low capital barrier to entry and access to licenses, (iv)

¹ EBITDA and Adjusted EBITDA are non-IFRS financial measures that is further described under the section “Non-IFRS Measures” herein.

² EBITDA and Adjusted EBITDA are non-IFRS financial measures that is further described under the section “Non-IFRS Measures” herein.

demonstrated supply of raw material, (v) multiple points of (retail) distribution, (vi) demonstrated operational leadership in place, and (vii) a demonstrable ROI.

The Corporation's current Core Markets include Colorado and Vermont. The Core Market of Colorado includes, branding, manufacturing and distributing SLANG medical and recreational cannabis products to wholesale customers. The Core Market of Vermont includes cultivation, branding, manufacturing and distributing SLANG medical & recreational cannabis products to other retail customers, as well as through its owned medical and recreational retail dispensaries in the state. The Company possesses 2 of Vermont's 5 existing medical marijuana licenses and one retail marijuana license.

Core Market Objectives

Colorado

SLANG is positioned to leverage its experience in Colorado to capitalize on organic revenue growth by focusing on velocity per store and by expanding points of distribution. This is supported by our inside and outside sales teams to expand on existing relationships and to leverage the Company's distribution footprint. Growth is achieved by focusing on profitability through the marketing support of our brands and securing key account partnerships with retail customers in the state. The Company will also continue to focus on reducing expenses to maximize Core Market profitability.

Vermont

The addition of Vermont as a Core Market in August 2021 was a growth catalyst for the Company. Immediate results were experienced from the high margins that accompanied Vermont's direct to consumer sales through its three medical retail locations. The high margins have brought a healthy and consistent gross profit to the Company as a whole. As an existing medical marijuana license holder in Vermont, the Company also received a retail marijuana license on September 28, 2022, allowing it to open the first retail marijuana location in the state on October 1, 2022 named CERES Collaborative. The dispensary is a 1,500 square foot recreational retail location in Burlington, Vermont. The addition of Vermont has also brought the opportunity to increase SLANG's product offering in the state, increasing brand penetration. The Company will be focusing on building out its wholesale channel within the state as more retailers receive licenses. The Company views this as one of its main catalysts for growth.

Emerging Markets

Emerging Markets ("**Emerging Markets**") are those that SLANG views as markets with regulatory or commercial environments in which profitability and high-margin sales are currently more challenging for consumer product-focused companies, or barriers to entry are overly cost prohibitive or onerous.

Emerging Markets today include Florida, Maine, New Mexico, Massachusetts, Michigan, Ohio, Pennsylvania, Washington, West Virginia, Maryland and Puerto Rico. In Emerging Markets, the Corporation's strategy is to focus on strategic partnerships which allow the Corporation to establish a market presence without deploying the resources necessary for success as an in-state operator. Strategic partnerships represent an opportunity to work with proven partners, such as Trulieve Cannabis Corp., in order to bring SLANG branded products to market, while supporting said partners in the areas of operations, sales and marketing in exchange for a royalty on SLANG branded products.

Emerging Market Objectives

SLANG continues to focus on expanding its strategic partnership model by leveraging relationships and collaboration in all markets to grow the business in the most capital-efficient way. Growth will come primarily by way of expansion of the SLANG branded product portfolio with existing strategic partners, as well as expanding into additional states with new strategic partners.

THC Free

SLANG's THC Free focus is on all products which do not include THC and can therefore be broadly distributed. This includes our dry herb vaporizer, the Firefly 2+, our line of Alchemy Naturals CBD gummies (previously known as Lunchbox Alchemy), as well as batteries and various other product components including packaging and hardware. The Corporation completed its rebrand and reformulation of its Lunchbox Alchemy CBD gummies as Alchemy Naturals, which launched on August 1, 2022.

Strategies employed to support the THC Free channel include working alongside distribution partners both domestically and abroad as well as direct to consumer sales through our e-commerce platforms. Our ecommerce platforms include [O.pen](#), [Firefly](#), and [Alchemy Naturals CBD](#).

THC Free Objectives

Distribution

The Company continues to focus on distributor relationships, which provide an avenue for responsible growth and widespread distribution of Slang branded hardware and CBD products such as the Firefly 2+, O.pen batteries, and Alchemy Naturals CBD gummies. Our current distribution partners assist in distributing the above products throughout the United States and our Firefly 2+ into Canada, Europe and Australia. In addition, the Company has transitioned its wholesale distribution channel for CBD products in-house. This has helped control inventory carry as well as distribution costs, increasing the flexibility and profitability of this channel.

Ecommerce

Ecommerce channels represent an impactful growth opportunity for SLANG. Direct to consumer sales through ecommerce generates healthy margins and the ability to reach a broad customer base. Key areas of focus include mobile traffic, social media, search engine optimization, the shopping experience (IE website design) and the rebranded and reformulated Lunchbox Alchemy CBD gummies, which sell under the new brand name, Alchemy Naturals. The Company began ecommerce sales of Alchemy Naturals in Q3 2022.

3. Results and Outlook

Overview

Below is selected financial information for each of the 8 most recent quarters of operations. Certain results may differ from those initially reported. The figures reported for each of the quarters between January 2021 and September 2021 have been retrospectively adjusted to incorporate the presentation associated with the Company's discontinued operations.

On August 11, 2021, the Company acquired 100% of the issued and outstanding equity interests of HiFi. HiFi is one of Vermont's premier vertically integrated cannabis companies, founded in 2012 in Burlington, the state's largest urban and cultural center. The Company owned two of the five medical cannabis licenses in Vermont, Champlain Valley Dispensary ("**CVD**") and Southern Vermont Wellness ("**SVW**"), and services approximately 70 percent of registered patients³. In June 2021, both CVD and SVW commenced operating under a new brand name, CeresMED. At the time of acquisition, HiFi operated three medical dispensaries, statewide home delivery services and wholesale distribution of its own branded products as well as SLANG branded products. HiFi has a long-standing mutually beneficial relationship with SLANG as a strategic partner: licensing, manufacturing, and distributing O.pen, in Vermont since 2015.

The Company's decision to discontinue its THC operations in Oregon (CHC Laboratories, Inc. & Hydra Oregon, LLC) and its Colorado cultivation operations in Q4 2021 has contributed to increased margins, reduced costs, and an overall increase in comprehensive income throughout 2022. In the results below, the Cash Generating Unit's ("**CGUs**") consisting of Oregon's THC operations and SCC operations have been included in net loss from discontinued operations.

On April 12, 2022, the Company acquired 100% of the issued and outstanding capital stock of NS Holdings, Inc. ("**NSH**") by way of a merger with a dormant wholly owned subsidiary of the Company. NSH owns 100% of the issued and outstanding equity interests of GNT and Oregon OV, LLC (collectively, the "**Acquired Companies**"). The dormant subsidiary, Slang Oregon Holdings, Inc., was the surviving entity in the merger. Under IFRS 3, Business Combinations, it was determined that the acquisition did not qualify as a business combination, and therefore, it was accounted for as an asset acquisition. Previously, in June 2021, the Company issued 354,166 Common Shares and 531,249 restricted voting shares recorded as a deposit on acquisition. On acquisition date, April 12, 2022, the deposit was fair valued at \$172,076, resulting in a fair value loss of \$904,788 recorded in financing cost and fair value adjustments in the consolidated statement of loss and comprehensive loss. In addition to the deposit, as consideration for the outstanding NSH capital stock, the Company issued 708,326 Common Shares at \$0.235 per share (based on quoted market price) and 1,062,490 restricted voting shares at \$0.167 per share (based on an option pricing model) on April 12, 2022. A discount of 29% was applied to the restricted voting shares due to voting restrictions placed on these shares. The Company recorded expenses on the acquisition of \$1,494,575 recorded in the consolidated statement of loss and comprehensive loss. These adjustments were directly related to recording the NSH asset acquisition and are not expected to impact future quarters. See Note 6 of the consolidated financial statements for further details.

On September 28, 2022, Company received a Vermont retail marijuana license allowing the Company to open its CERES Collaborative dispensary on October 1, 2022. The retail revenue associated with recreational sales has provided a positive impact to revenue and gross profit in Q4 2022 and is expected to continue to contribute to revenue and gross profit in the future.

At December 31, 2022, the Company has a strong balance sheet and cash position and management is confident in its resources, people and strategy to continue to succeed over the long term. We have begun to see positive sustained trends in various areas from steadily increasing margins and decreasing costs in recent months and quarters, which we expect will continue in 2023. Our ongoing cost monitoring and reduction program will allow us to pivot if necessary and continue to benefit from the recovery in consumer and business activity.

³ Source: [Vermont Marijuana Registry](#)

Results

Selective Financial Results

Summary information for the eight most recently completed quarters:

	3-Months Ended							
	31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-21	30-Sep-21	30-Jun-21	31-Mar-21
(In thousands except per share data)	CDN	CDN	CDN	CDN	CDN	CDN	CDN	CDN
Net Operating Revenue From Continuing Operations	\$ 11,777	\$ 8,170	\$ 9,868	\$ 8,374	\$ 8,838	\$ 9,357	\$ 10,497	\$ 9,085
Operating Loss from Continuing Operations	(3,472)	(4,989)	(2,594)	(3,831)	(6,953)	(7,494)	(4,962)	(5,927)
Total Comprehensive Loss	(16,955)	(4,641)	(3,545)	(4,512)	(37,103)	(5,694)	(4,659)	(9,077)
Total Assets	42,755	64,611	66,106	71,907	79,290	120,631	107,172	111,289
Total Liabilities	30,278	35,900	34,470	37,613	41,122	47,764	35,691	38,053
Shareholders' Equity	12,477	28,711	31,636	34,294	38,168	72,867	71,481	73,236
Earnings Per Share From Continuing Operations								
Basic	\$ (0.15)	\$ (0.06)	\$ (0.03)	\$ (0.04)	\$ (0.39)	\$ (0.08)	\$ (0.05)	\$ (0.10)
Diluted	\$ (0.15)	\$ (0.06)	\$ (0.03)	\$ (0.04)	\$ (0.39)	\$ (0.08)	\$ (0.05)	\$ (0.10)

Note: The above table presents per share earnings on a basis that is reflective of the Consolidation (as defined herein).

The following table presents selected financial data derived from the indicated periods consolidated financial statements of the Company. The selected financial information set out below may not be indicative of the Company's future performance.

	3 months ended 31-Dec-22	3 months ended 31-Dec-21	12 months ended 31-Dec-22	12 months ended 31-Dec-21
(In thousands except per share data and percentages)	CDN	CDN	CDN	CDN
Net Operating Revenue From Continuing Operations	\$ 11,777	\$ 8,838	\$ 38,189	\$ 37,777
Cost of goods sold	6,077	5,501	20,566	23,311
Gross Profit Before Fair Value Adjustment of Biological Assets	5,700	3,337	17,623	14,466
Realized fair value amounts included in inventory sold	(1,298)	(501)	(2,976)	(886)
Unrealized gain on changes in fair value of biological assets	293	1,264	1,799	1,547
Gross Profit	4,695	4,100	16,446	15,127
Gross Profit Margin	40%	46%	43%	40%
Operating expenses	8,167	11,053	31,332	40,463
Operating Loss	(3,472)	(6,953)	(14,886)	(25,336)
Impairment	15,353	53,260	15,353	53,260
Expenses related to acquisitions	-	-	1,495	-
Financing cost and fair value adjustment	(3,188)	(9,964)	(1,349)	(10,417)
Other expense (income)	(169)	88	(924)	184
Termination of licensing agreement and extinguishment of financial liabilities	-	(16,499)	-	(16,499)
Loss Before Income Taxes	(15,468)	(33,838)	(29,461)	(51,864)
Income taxes	-	(116)	-	7
Deferred taxes (recovery)	-	(542)	-	(542)
Net Loss From Continuing Operations	(15,468)	(33,179)	(29,461)	(51,329)
Net Loss From Discontinued Operations	(67)	(3,254)	(807)	(4,756)
Exchange on translation of foreign operations	(1,420)	(669)	615	(448)
Total Comprehensive Loss	\$ (16,955)	\$ (37,102)	\$ (29,653)	\$ (56,533)
Earnings Per Share From Continuing Operations				
Basic	\$ (0.15)	\$ (0.39)	\$ (0.29)	\$ (0.60)
Diluted	\$ (0.15)	\$ (0.39)	\$ (0.29)	\$ (0.60)
EBITDA (Non-IFRS)	\$ (1,822)	\$ (4,866)	\$ (8,710)	\$ (17,487)
Adjusted EBITDA (Non-IFRS)	\$ (56)	\$ (2,896)	\$ (3,645)	\$ (5,626)

Note: The above table presents per share earnings on a basis that is reflective of the Consolidation (as defined herein).

Revenue

SLANG generates income through two main sources in relation to the presentation on the financial statements: (i) product and licensing fees, and (ii) interest & other income. Below is an explanation of our main sources of revenue as of December 31, 2022.

Product and Licensing Fees

Product and licensing fees are generated through the sale of:

- Finished cannabis products sold via wholesale and retail channels
- Product components and ingredients such as: concentrates, bases, packaging, and hardware
- Finished non-cannabis and CBD products such as the Firefly 2+ dry-herb vaporizer, O.pen batteries, accessories, and Alchemy Naturals CBD gummies
- Licensing fees for our brands

Interest and Other Income

Interest and other income are mainly comprised of interest from deposits held at financial institutions, interest from loans made to related and non-related parties, and other income incidental to the Company's primary operations. Management expects interest and other income to continue to be insignificant going forward.

Results

The increase in revenue from continuing operations of \$2.94 million in the three months ended December 31, 2022, over the comparative period in 2021 is mainly attributed to an increase in our Core Market sales of \$0.46 million in Colorado and \$3.37 million in Vermont, offset by decrease in our Emerging Market sales of \$0.86 million which is primarily attributed to sales to our partner Trulieve Cannabis Corp. Royalties and distribution revenue decreased \$0.19 million and \$0.18 million respectively, while our ecommerce revenue increased by \$0.26 million. The remaining variances are immaterial.

Revenue from continuing operations for the year ended December 31, 2022 was \$38.19 million, compared with \$37.78 million in the year ended December 31, 2021 representing a 1% increase year-over-year. The primary drivers of the increase were the recognition of a full year of revenue from the acquisition of HiFi in Vermont, which contributed an increase of \$7.94 million to revenue over the comparative period, offset by a \$4.79 million reduction in revenue from Emerging Markets and a \$1.92 million reduction in revenue from the Company's Core Market of Colorado. The remaining offsetting decrease in revenue can be attributed to a decrease in Firefly 2+ distribution revenue. The majority of the Emerging Market revenue declines were experienced in two markets, Florida & Nevada.

Gross Margin

For the three months ended December 31, 2022, gross profit increased by \$0.60 million to \$4.69 million, compared with the same period in 2021, and gross margin decreased to 40% from 46%. However, gross profit before fair value of biological assets was \$5.70 million, 48% gross margin, compared with \$3.34 million, 38% gross margin, in the same period 2021, representing a 71% increase year-over-year.

For the year ended December 31, 2022, gross profit increased \$1.32 million to \$16.45 million compared to 2021, and gross margin increased to 43% from 40%. Gross profit before fair value of biological assets was \$17.62 million, 46% gross margin, for the year ended December 31, 2022, compared with \$14.47 million, 38% gross margin, for 2021, representing a 22% increase year-over-year.

Normalizing for adjustments to fair value of biological assets, the Company experienced significant increases in gross profit and margin due to the following factors: (i) the acquisition of HiFi in August 2021 bringing higher margin sales; (ii) decreased raw cannabis input costs in Colorado; and (iii) improved margins from SKU rationalization initiatives taken in late 2021. Additionally, comparing quarter-over-quarter gross margin before fair value adjustments of biological assets further highlights the Company's improving and sustainable margins due to the above factors, given that the gross margin before fair value adjustments of biological assets was 48%, 49%, 43% and 43% for the 3 months ended December 2022, September 2022, June 2022 and March 2022, respectively.

Below is the gross profit and gross profit margin from operations for the 3 and 12 months ended December 31, 2022, and 2021:

	3 months ended 31-Dec-22	3 months ended 31-Dec-21	12 months ended 31-Dec-22	12 months ended 31-Dec-21
(In thousands except per share data and percentages)	CDN	CDN	CDN	CDN
Net Operating Revenue From Continuing Operations	\$ 11,777	\$ 8,838	\$ 38,189	\$ 37,777
Cost of goods sold	6,077	5,501	20,566	23,311
Gross Profit Before Fair Value Adjustment of Biological Assets	\$ 5,700	\$ 3,337	\$ 17,623	\$ 14,466
Realized fair value amounts included in inventory sold	(1,298)	(501)	(2,976)	(886)
Unrealized gain on changes in fair value of biological assets	293	1,264	1,799	1,547
Gross Profit	\$ 4,695	\$ 4,100	\$ 16,446	\$ 15,127
Gross Margin	40%	46%	43%	40%
Gross Profit Before Fair Value Adjustment of Biological Assets	\$ 5,700	\$ 3,337	\$ 17,623	\$ 14,466
Gross Margin Before Fair Value Adjustment of Biological Assets	48%	38%	46%	38%

Below is the gross profit and gross profit margin from operations for the most recent 8 quarters:

	3 Months Ended							
	31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-21	30-Sep-21	30-Jun-21	31-Mar-21
(In thousands except per share data and percentages)	CDN	CDN	CDN	CDN	CDN	CDN	CDN	CDN
Net Operating Revenue From Continuing Operations	\$ 11,777	\$ 8,170	\$ 9,868	\$ 8,374	\$ 8,838	\$ 9,357	\$ 10,497	\$ 9,085
Cost of goods sold	6,077	4,153	5,601	4,735	5,501	5,790	6,827	5,193
Realized fair value amounts included in inventory sold	(1,298)	(584)	(580)	(514)	(501)	(385)	-	-
Unrealized gain on changes in fair value of biological assets	293	170	806	530	1,264	283	-	-
Cost of Goods Sold	\$ 7,082	\$ 4,567	\$ 5,375	\$ 4,719	\$ 4,738	\$ 5,892	\$ 6,827	\$ 5,193
Gross Profit	\$ 4,695	\$ 3,603	\$ 4,493	\$ 3,655	\$ 4,100	\$ 3,465	\$ 3,670	\$ 3,892
Gross Margin	40%	44%	46%	44%	46%	37%	35%	43%
Gross Profit Before Fair Value Adjustment of Biological Assets	\$ 5,700	\$ 4,017	\$ 4,267	\$ 3,639	\$ 3,337	\$ 3,567	\$ 3,670	\$ 3,892
Gross Margin Before Fair Value Adjustment of Biological Assets	48%	49%	43%	43%	38%	38%	35%	43%

Expenses and Other Income

	3 months ended 31-Dec-22	3 months ended 31-Dec-21	12 months ended 31-Dec-22	12 months ended 31-Dec-21
(In thousands)	CDN	CDN	CDN	CDN
Consulting and subcontractors (1)	\$ 233	\$ 1,133	\$ 1,811	\$ 1,842
Sales and marketing (2)	295	368	\$ 1,339	\$ 1,213
Professional fees (3)	308	1,289	\$ 1,649	\$ 3,493
Salaries and wages (4)	3,535	3,337	\$ 11,332	\$ 10,095
General and administrative (5)	1,208	769	\$ 3,692	\$ 2,791
Insurance (6)	423	514	\$ 2,093	\$ 2,709
Depreciation and amortization (7)	1,404	1,898	\$ 5,528	\$ 7,247
Expected credit losses (recovery) (8)	39	317	\$ 179	\$ 2,224
Share based payments (9)	722	1,428	\$ 3,709	\$ 8,849
Total operating expenses from continuing operations	8,167	11,053	31,332	40,463
Other expense (income) (10)	(169)	88	\$ (924)	\$ 184
Impairment (11)	15,353	53,260	\$ 15,353	\$ 53,260
Expenses related to acquisitions (12)	-	-	\$ 1,495	\$ -
Financing cost and fair value adjustment (13)	(3,188)	(9,964)	\$ (1,349)	\$ (10,417)
Income taxes (14)	-	(657)	\$ -	\$ (535)
Termination of licensing agreement and extinguishment of financial liabilities (15)	-	(16,499)	\$ -	\$ (16,499)
Net loss from discontinued operations (16)	67	3,254	\$ 807	\$ 4,756
Exchange differences on translation	1,420	669	\$ (615)	\$ 447
Total Expenses	\$ 21,650	\$ 41,204	\$ 46,099	\$ 71,659

Operating Expenses

- (1) The decrease in consulting and subcontracting expense of \$0.90 million and \$0.03 million in the 3 and 12 months ended December 31, 2022, respectively, compared to the 2021 comparative periods is mainly attributable to consulting fees paid to the Company's previous financial advisor, MACCO Restructuring Group, LLC ("MACCO"). MACCO was engaged between the period of October 2021 through September 2022. The Company does not expect to incur any future fees related to MACCO.
- (2) Sales and marketing expenses decreased by \$0.07 million when comparing the 3 months ended December 31, 2022 to the same period in 2021 and increased by \$0.13 million when comparing the 12 months ended December 31, 2022 to the same period in 2021. This increase was mainly driven by the Company continuing to invest in digital advertising to grow ecommerce sales nationally, as well as in-store advertising in Colorado and Vermont. Furthermore, there was an increase related to the return of conferences, tradeshow, and events which were minimal in the comparative 12-month period due to COVID-19.
- (3) Professional fees for the 3 and 12 months ended December 31, 2022 have decreased by \$0.98 million and \$1.84 million, respectively, over the comparative periods in 2021. The decrease is mainly due to decreased legal and regulatory compliance fees associated with M&A activity in the prior period.
- (4) Salaries and wages for the 3 and 12 months ended December 31, 2022 have increased by \$0.20 million and increased by \$1.24 million, respectively, over the comparative periods in 2021. This variability in salaries and wages can be explained by the addition of the HiFi business. The

comparable period operating results for 2021 do not include a full year of salaries and wages from HiFi, which was acquired in August 2021. HiFi added an additional \$1.45 million and \$4.39 million in salaries and wages for the 3 and 12 months ended December 31, 2022, respectively. HiFi added an additional \$0.87 million and \$1.01 million in salaries and wages for the 3 and 12 months ended December 31, 2021, respectively. The increase in fourth quarter salaries and wages for HiFi is a result of the additional scale required to support the new recreational market in 2022.

- (5) General and administration expenses for the 3 and 12 months ended December 31, 2022 increased by \$0.44 million and \$0.90 million, respectively, over the comparative periods in 2021. The increase is mainly attributable to the acquisition of HiFi.
- (6) Insurance premiums for the 3 and 12 months ended December 31, 2022 have decreased by \$0.09 million and \$0.62 million, respectively, over the comparative periods in 2021. The decrease is mainly due to lower costs associated with D&O insurance which was renegotiated in late August 2021. In August 2022, D&O insurance was again renegotiated for the period from September 2022 to August 2023 and the Company expects to realize continued cost savings through 2023. Regardless, insurance premiums related to D&O in the cannabis industry continue to be high and difficult to obtain when compared to other industries. Recent industry challenges associated with other public entities has increased the perceived risk exposure with some insurance carriers exiting the marketplace. We expect that premiums will continue at elevated levels and that insurance expense will be a volatile expense category on an ongoing basis.
- (7) Depreciation and amortization in the quarter is primarily driven by intangible assets as a result of acquisitions made throughout 2019, 2020 and 2021. Typically, a significant amount of the purchase price has been allocated to intangible assets. Depreciation and amortization have decreased by \$0.49 million and \$1.72 million for the 3 and 12 months ended December 31, 2022, respectively, over the comparative periods in 2021. This decrease is mainly a result of impairment taken on various intangibles and fixed assets in 2021, resulting in lower depreciation and amortization on a go forward basis.
- (8) Management determines the expected credit loss by evaluating individual receivable balances and considering a member's financial condition and current economic conditions. Accounts and other receivables are written off when deemed uncollectible. Expected credit losses for the 3 and 12 months ended December 31, 2022 decreased by \$0.28 million and \$2.05 million respectively over the comparative period due to the comparative period including significant credit losses related to receivables and related party balances from the Company's past Oregon licensee, GNT Oregon, LLC.
- (9) Share based payments includes stock options for employees, advisors, and directors and restricted stock units issued to key management personnel in previous periods. Options granted vest over a 4-year period from the issuance date, with the compensation expense recognized over that period. Compensation expense in regard to restricted stock units is recognized over the vesting period established by the Board.

Other Expenses/Income

- (10) Other expenses (income) consist mainly of foreign currency exchange gains and losses in the period.
- (11) Impairment for the 3 and 12 months ended December 2022 is mainly attributable to the following:
- i. \$12.58 million in impairment of intangibles mainly due to the discontinuation of select underperforming brands.
 - ii. \$1.99 million in impairment of the goodwill related to the CVD CGU after the Company identified various impairment indicators which resulted in impairment tests concluding that the individual CGU carrying values exceeded its recoverable amounts.
 - iii. \$0.37 million in impairment on right-of-use assets related to discontinued support for the Oregon operations.
 - iv. \$0.42 million in impairment on property, plant, and equipment and intangible assets associated with SCM & NCG's assets held for sale.
- (12) Expenses related to acquisition of \$1.49 million in the 12 months ended December 31, 2022, represent consideration in excess of the fair value of net assets acquired related to the acquisition of NSH. See Note 6 of the consolidated financial statements for further details.
- (13) Financing cost and fair value adjustment:

The table below details the values that contribute to financing costs and fair value adjustments. Following the table are details which describe the trends, events, transactions, and expenditures that would be material to the reader.

	3 months ended 31-Dec-22	3 months ended 31-Dec-21	12 months ended 31-Dec-22	12 months ended 31-Dec-21
Fair value adjustment on derivative liabilities a) & b)	\$ (168,119)	\$ (11,812,354)	\$ (4,646,676)	\$ (13,339,394)
Accretion on lease liabilities c)	193,985	170,968	723,819	497,741
Accretion expense d)	1,154,043	406,987	3,544,887	869,723
Interest on convertible notes	700,357	293,505	2,460,969	362,672
Other interest expense	19,975	34,837	150,455	294,723
Gain on extinguishment of financial instruments	(202,014)	-	(198,809)	
Foreign currency exchange gain	-	(8,079)	-	(51,951)
Fair value adjustment on financial instruments e)	(4,886,658)	949,764	(3,384,027)	949,764
Total	\$ (3,188,431)	\$ (9,964,372)	\$ (1,349,382)	\$ (10,416,722)

- a) On April 30, 2018, the Company issued a 4-year, 4% unsecured convertible promissory note to The Purple Company Inc. in the amount of US\$1,843,031 (CAD \$2,500,901) (the "**Purple Note 1**") to exchange an existing loan to Purple Organization, Inc. The note conversion option represents an embedded derivative. The fair value adjustment to the embedded derivative liability for the year ended December 31, 2022 resulted in a fair value gain of \$288,300 (2021 - \$2,500,604). See Note 27 of the consolidated financial statements for further details.
- b) On November 15, 2021, the Company entered into a convertible note for an aggregate principal amount of US\$17,319,588. The convertible note is subject to an original issue discount of 3% and will have a three-year term and a PIK interest rate of 9.75%, compounded quarterly, with the entire outstanding balance, including interest, becoming due and payable on the third anniversary of the transaction. Additionally, the Company will pay the lenders a maturity fee in an amount equal to US\$3,637,113 on the earlier of: (i) the maturity date; and (ii) any date of prepayment of

the initial loan amount. The note conversion option represents an embedded derivative and the fair value adjustment to the embedded derivative liability for the year ended December 31, 2022, resulted in a fair value gain of \$4,358,376 (2021 - \$10,838,790). See Note 27 of the consolidated financial statements for further details.

- c) Right of use assets are comprised of the Company's leased premises and offices and are depreciated on a straight-line basis over each respective lease term. The amounts presented for the 3 and 12 months ended December 31, 2022 & 2021 represents the accretion of the lease liabilities associated with the right-of-use assets.
 - d) The accretion expense represents \$237,060 in accretion on The Purple Company Inc. note described in a) above for the 12 months ended December 31, 2022, and \$3,307,827 in accretion on the convertible note described in b) above.
 - e) The fair value adjustment on financial instruments for the 12 months ended December 31, 2022 relates to a fair value gain of \$4,288,815 on the contingent consideration associated with the HiFi acquisition and a fair value loss on the deposit related to the NSH acquisition of \$904,788.
- (14) Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the consolidated statement of financial position. Deferred tax is recognized using the liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
- (15) The termination of licensing agreement and gain on extinguishment of financial liabilities in 2021 mainly relates to a one-time gain of \$16,360,820 on the extinguishment of deferred revenue associated with the termination of the license and distribution agreement with Agripharm. Given this termination, the Company no longer has an obligation with respect to Agripharm and the full amount of deferred revenue has been recognized in the termination of licensing agreement and extinguishment of financial liabilities. The remaining gain was attributable to the extinguishment of minor payables that were no longer due at December 31, 2021.
- (16) During the year ended December 31, 2021, the Company entered a plan to sell certain assets and discontinued the operations of SCC's and CHC's CGU. Revenues, expenses, and gains or losses relating to the discontinuance of SCC and CHC have been eliminated from net loss from continuing operations and are shown as a single line item in the consolidated statement of loss and comprehensive loss. As a result, the Company presents SCC's and CHC's CGU as a discontinued operation. The \$0.07 million and \$0.81 million reported as a net loss from discontinued operations for the 3 and 12 months ended December 31, 2022, respectively, is a result of various ongoing expenditures related to winding up these CGU's and maintaining related assets so they can be sold.

Non-IFRS Measures

EBITDA and Adjusted EBITDA are non-IFRS financial measures that the Company uses to assess its operating performance. EBITDA is defined as net earnings (loss) before net finance costs, income tax expense (benefit) and depreciation expense. Management defines Adjusted EBITDA as EBITDA adjusted for other non-cash items such as the impact of unrealized fair values, inventory, and biological assets fair value adjustments, share based compensation expense, impairments, one-time gains and losses, and one-time revenues and expenses. This data is furnished to provide additional information, they are non-IFRS measures and do not have any standardized meaning prescribed by IFRS. The Company uses these non-

IFRS measures to provide shareholders and others with supplemental measures of its operating performance. The Company also believes that securities analysts, investors and other interested parties, frequently use these non-IFRS measures in the evaluation of companies, many of which present similar metrics when reporting their results. As other companies may calculate these non-IFRS measures differently than the Company, these metrics may not be comparable to similarly titled measures reported by other companies. We caution readers that Adjusted EBITDA should not be substituted for determining net loss as an indicator of operating results, or as a substitute for cash flows from operating and investing activities. During 2022 the Company updated its definition of Adjusted EBITDA to include the impact of fair value amounts included in inventory sold and unrealized gain on changes in fair value of biological assets. The comparative 2021 figures have been updated to conform to this current period presentation.

EBITDA and Adjusted EBITDA Reconciliation

	3 months ended 31-Dec-22	3 months ended 31-Dec-21	12 months ended 31-Dec-22	12 months ended 31-Dec-21
(In thousands)	CDN	CDN	CDN	CDN
Operations	\$ 11,777	\$ 8,838	\$ 38,189	\$ 37,777
Cost of Goods Sold	6,077	5,501	20,566	23,311
Realized fair value amounts included in inventory sold	(1,298)	(501)	(2,976)	(886)
Unrealized gain on changes in fair value of biological assets	293	1,264	1,799	1,547
Gross Profit	4,695	4,100	16,446	15,127
Operating expenses	8,167	11,053	31,332	40,463
Operating Income (Loss)	(3,472)	(6,953)	(14,886)	(25,336)
Depreciation	1,404	1,898	5,528	7,247
Depreciation - reclassified to cost of sales	246	189	648	602
EBITDA (Non-IFRS)	(1,822)	(4,866)	(8,710)	(17,487)
Share based payments	722	1,428	3,709	8,849
adjustments	1,005	(763)	1,177	(661)
Expected credit loss	39	317	179	2,224
Employee severance	-	302	-	302
Fair value increase of inventory on acquisition	-	79	-	167
Financing related professional fees	-	607	-	980
Adjusted EBITDA (Non-IFRS)	\$ (56)	\$ (2,896)	\$ (3,645)	\$ (5,626)

EBITDA improved by \$3.04 million and \$8.78 million for the 3 and 12 months ended December 31, 2022, respectively, when compared to 2021. The improvement in EBITDA was driven primarily by a decrease in operating expenditures (excluding depreciation and amortization) of \$2.39 million and \$7.41 million for the 3 and 12 months ended December 31, 2022, respectively. See *Expenses and Other Income* for details surrounding the decreases in operating expenditures. Further improvements to EBITDA were attributable to a \$0.60 million and \$1.32 million increase in gross profit for the 3 and 12 months ended December 31, 2022 respectively. The increases in gross profit are due to the following factors: (i) the acquisition of HiFi in August 2021 bringing higher margin sales; (ii) decreased raw cannabis input costs in Colorado; and (iii) improved margins from SKU rationalization initiatives taken in late 2021.

Adjusted EBITDA improved by \$2.84 million and \$1.98 million for the 3 and 12 months ended December 31, 2022, when compared to 2021. The improvement in Adjusted EBITDA was driven primarily by a \$2.36 million and \$3.16 million increase in gross profit before fair value adjustments on biological assets for the 3

and 12 months ended December 31, 2022, respectively. For the 3 months ended December 31, 2022, further reductions in operating expenditures such as consulting a subcontractor also contributed to the improvement in Adjusted EBITDA. For the 12 months ended December 31, 2022, an increase in \$1.24 million in salaries and wages partially offset some of the improvements to Adjusted EBITDA.

4. Resources, Relationships and Risk

Resources

Financial Position

	As of 31-Dec-22	As of 31-Dec-21
(In thousands)	CDN	CDN
Cash	\$ 7,849	\$ 17,028
Restricted cash	4,071	3,803
Working capital	12,762	24,906
Total investments (1)	1,112	-
Total assets	42,755	79,290
Total liabilities	30,278	41,122
Shareholders' equity	12,477	38,168
Dividends, per share	-	-

(1) This represents the sum of total investments, and interests in equity method investees

The net decrease in cash and restricted cash year over year is mainly due to \$3.14 million of cash flows used in operating activities from continuing operations, \$1.95 million of cash flows used in financing activities from continuing operations, and \$4.01 million of cash flows used in investing activities from continuing operations. Additionally, \$0.74 million of cash flows were used in discontinued operations and \$0.92 million in favourable foreign exchange impacts were realized in the period. The decrease in working capital year over year is mainly due to the \$8.91 million decrease in cash and restricted cash, and the \$2.26 million decrease in inventories.

Liquidity and Capital Resources

On November 16, 2021, the Company announced a term-loan financing (the “**Loan Transaction**”) with participation from Trulieve Cannabis Corp., a leading and top-performing cannabis company based in the United States, and two existing significant shareholders of the Company, Pura Vida Investments and Seventh Avenue Investments and other investors (collectively, the “**Lenders**”), for an aggregate principal amount of US\$17.3 million (the “**Initial Loan Amount**”). The Loan Transaction is subject to an original issue discount of 3% and has a three-year term and a PIK interest rate of 9.75%, compounded quarterly, with the entire outstanding balance, including interest, becoming due and payable on the third anniversary of the Loan Transaction (the “**Maturity Date**”). 50% of the net loan proceeds were originally allocated to the development of operations in Vermont to achieve long-term profitability and further execute strategic growth objectives. On June 27, 2022, the Company and the Lenders amended certain covenants of the original Loan Transaction, most notably an adjustment which no longer requires US\$8.65 million to be allocated to the development of Vermont’s operations. The Company will pay the Lenders an aggregate total amount equal to US\$3.6 million (together with the Initial Loan Amount, the “**Convertible Debt**”) on the earlier of: (i) the Maturity Date; and (ii) any date of prepayment of the Initial Loan Amount. In addition, the Company has

granted the Lenders an option to, at any time on or prior to the Maturity Date, convert any portion of the Convertible Debt, including the earned interest thereon, into Common Shares at a price per Common Share equal to US\$0.7638. The Convertible Debt is secured by a first secured ranking on the assets of SLANG, guaranteed on a senior secured basis by certain of SLANG's subsidiaries. The net loan proceeds will be used for both working capital and to fund the development of Vermont's operations. Based on the terms of the Loan Transaction, management originally reconciled the net use of funds as follows: net proceeds of US\$16.8 million, less a minimum cash balance requirement of US\$3.0 million, US\$8.65 million allocated to the development of Vermont's operations and US\$5.15 million allocated to general working capital requirements. Subsequently, the Company had planned to move forward with advancing funds to Woah Flow, LLC to capitalize on an expansion opportunity into New Jersey, whereby it intended to obtain a retail license to operate within the state. The Company has since decided to not move forward with the opportunity and is looking for opportunities for divestiture. Additionally, as a result of the amendment to the original Loan Transaction, the Company has reallocated the remainder of the proceeds to general working capital requirements.

The Company's anticipated use of proceeds from the Loan Transaction is presented below and has been updated for the amendment discussed above and the proceeds utilized as of December 31, 2022:

Anticipated Use of Proceeds	Allocation of Proceeds	Proceeds Used 31-Dec-22
General Working Capital Requirements	\$ 17,667,030	\$ 9,818,095
Investment in New Jersey (Woah Flow, LLC)	\$ 1,058,880	\$ 1,058,880
Restricted Proceeds	\$ 4,070,850	\$ -
Total	\$ 22,796,760	\$ 10,876,975

Note: the allocation of proceeds is updated to reflect in Canadian dollars at each reporting period.

Cash Flows

The below table summarizes the Company's cash flows from operating, financing, and investing activities and the segregation of these cash flows between continuing operations and discontinued operations.

	12 months ended 31-Dec-22	12 months ended 31-Dec-21
Cash flows used in operating activities - continuing operations	\$ (3,138,873)	\$ (9,794,431)
Cash flows used in operating activities - discontinued operations	(598,454)	(2,182,368)
Cash flows from (used in) financing activities - continuing operations	(1,945,545)	29,391,917
Cash flows used in financing activities - discontinued operations	(385,269)	(146,901)
Cash flows used in investing activities - continuing operations	(4,012,416)	(3,201,072)
Cash flows from (used in) investing activities - discontinued operations	246,339	(55,052)
Exchange rate changes on foreign currency cash balances	922,955	210,377
Net increase (decrease) in cash	\$ (8,911,263)	\$ 14,222,470

Operating Activities

For the 12 months ended December 31, 2022, cash out-flows used in continuing operating activities was approximately \$3.14 million, compared to \$9.79 million for the 12 months ended December 31, 2021. This improvement of \$6.66 million was primarily achieved due to the combination of cost reduction initiatives during the period and the stabilization of non-cash working capital balances. For the 12 months ended December 31, 2022, cash out-flows used in discontinued operating activities was approximately \$0.60

million, compared to \$2.18 million for the 12 months ended December 31, 2021. This decrease in cash out-flows relates to elimination of the Company's THC operations in Oregon and SCC.

Financing Activities

For the 12 months ended December 31, 2022, cash out-flows used in continuing financing activities was \$1.95 million, compared to \$29.39 million in cash in-flows from continuing financing activities for the 12 months ended December 31, 2021. This decrease was primarily a result of the cash proceeds from the non-brokered private placement of Common Shares by the Company for gross proceeds of \$11.86 million which closed in February 2021, as well as the term-loan financing for an aggregate principal amount of \$20.79 million completed in November 2021, which provided positive financing cash flows in the comparative period. For the 12 months ended December 31, 2022, cash flows used in discontinued financing activities increased by \$0.24 million over the comparative period. These cash out-flows were mainly related to lease payments and termination associated with assets held for sale.

Investing Activities

For the 12 months ended December 31, 2022, cash out-flows used in continuing investing activities was \$4.01 million compared to \$3.20 million in cash out-flows from continuing investing activities for the 12 months ended December 31, 2021. For the 12 months ended December 31, 2022, the cash out-flows were primarily related to the subsequent cash payment on the acquisition of HiFi in the amount of \$2.38 million as well as \$1.01 million in loan advances made to Woah Flow, LLC to capitalize on the Company's expansion opportunity into New Jersey. The Company has made the decision to not move forward with any future investment into Woah Flow, LLC. For the 12 months ended December 31, 2021, the cash out-flows were primarily a result of \$4.58 million in cash paid on the acquisition of HiFi. For the 12 months ended December 31, 2022, the Company realized \$0.25 million in cash flows from discontinued investing activities as various Oregon assets were sold in the period.

The Company expects that cash on hand and cash flows from operations, along with private and/or public financing, will be adequate to meet the Company's capital requirements and operational needs for the next 12 months.

Outstanding Share Data

Description	Authorized Capital of the Company	Outstanding as of the date of this MD&A
Common Shares	Unlimited	82,717,653 ⁽¹⁾
Restricted Voting Shares	Unlimited	134,522,473 ⁽¹⁾
Warrants	N/A	13,977,288 ^{(1) (2)}
Convertible Promissory Note	N/A	US\$1,843,031 ⁽³⁾
Convertible Debt	N/A	US\$17,319,588 ⁽⁴⁾
Stock Options	Up to 15% of the I/O Shares ⁽⁵⁾	7,941,313 ⁽¹⁾
Restricted Share Units	10,000,000 ⁽⁵⁾	83,333 ⁽¹⁾

Notes:

1. On February 18, 2022, the Company received approval from its shareholders for a consolidation of its issued and outstanding share capital on the basis of one post-consolidation share for every six

pre-consolidation shares (the "**Consolidation**"). The Consolidation was affected on February 28, 2022, with any fractional shares rounded down to the nearest whole number, trading on a consolidated basis commenced as of market open on March 3, 2022. The above table is reflective of the Consolidation.

2. Includes 8,170,587 Canopy warrants calculated pursuant to a formula. The Canopy warrant becomes exercisable by the holder at any time following the day that cannabis and cannabis-related products are legalized under applicable federal laws in the United States and Canopy makes a bona-fide offer to enter into a collaboration agreement with the Company. The exercise price per share is variable between nominal and \$9.00 per Common Share. The expiry date is the earlier of: (i) December 15, 2032; and (ii) two years from the date of US federal cannabis legalization.
3. The Company has a Convertible Promissory Note, issued April 30, 2018, which has a value of US\$1,843,031 and is convertible into Common Shares at a price of \$1.20 per Common Share. The maximum number of Common Shares issuable pursuant to the April 30, 2018 note is variable based on the exchange rate and any accrued and unpaid interest. On November 8, 2021, the Company and The Purple Company Inc. entered into an amending agreement to the unsecured convertible promissory note whereby the maturity date was extended to January 31, 2025 and from the period commencing November 1, 2021 to January 31, 2025, the note shall accrue interest at 4%, accrued on a monthly basis, with no cash payment of accrued interest being made until maturity.
4. This Initial Loan Amount is subject to an original issue discount of 3% and will have a three-year term and a PIK interest rate of 9.75%, compounded quarterly, with the entire outstanding balance, including interest, becoming due and payable on the third anniversary of the Loan Transaction. The Company will pay the Lenders an aggregate total amount equal to US\$3.6 million on the earlier of: (i) the Maturity Date; and (ii) any date of prepayment of the Initial Loan Amount. In addition, the Lenders have an option to, at any time on or prior to the Maturity Date, convert any portion of the Convertible Debt, including the earned interest thereon, into Common Shares at a price per Common Share equal to US\$0.7638.
5. On April 27, 2022, the Board approved a new share compensation plan (the "**Share Compensation Plan**") which was approved by shareholders on June 16, 2022 at the Company's annual general and special meeting. The aggregate number of shares available for issuance from treasury under the Share Compensation Plan is 15% of the issued and outstanding shares of the Company at any given time, provided that only 10,000,000 shares may be issued pursuant to the grant of restricted share units.

Relationships

Related Party Transactions

Balances due to related parties consist of \$Nil (2021 – 3,468,850) due to NS Holdings Inc. and \$Nil (2021 - \$5,385) to other related parties. All balances were non-interest bearing and had no specified terms of repayment. All related party balances with NS Holdings Inc. were settled at fair value as a pre-existing relationship on the acquisition of NS Holdings Inc. The fair value of the balances included \$4,659,179 in notes receivable, \$927,263 in notes payable, and \$3,791,542 in related party balances due to NSH by the Company.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that would potentially affect current or future operations or the financial condition of the Company.

Issuers With U.S. Cannabis-Related Activities

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice 51-352 Issuers with U.S. Marijuana-Related Activities (the “**Staff Notice**”) which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state’s regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

As a result of the Company’s existing operations and recent acquisitions in the United States, the Company is subject to the Staff Notice and accordingly provides the following disclosures.

Nature of Involvement

As of December 31, 2022, approximately 100% of the Company’s revenue was derived from U.S. marijuana-related activities. While a significant component of the Company’s revenue is derived from its ownership, licensing and marketing of cannabis brands, the Company is also now directly involved in the distribution of cannabis in the states of Colorado and Vermont.

United States Federal Overview

In the U.S., 39 states, the District of Columbia and the U.S. territories of Guam, the U.S. Virgin Islands, and Puerto Rico have comprehensive medical cannabis programs. Twenty one of those states, the District of Columbia, Guam, and Northern Mariana have legalized cannabis for adults for non-medical purposes (sometimes referred to as adult or recreational use). Eight additional states have legalized low potency cannabis for select medical conditions. Only three states continue to prohibit cannabis entirely.

Nonetheless, state and other federal laws and regulations may limit the cultivation, production, and sale of certain hemp products.

On December 20, 2018, former President Trump signed into law the *Agricultural Improvement Act of 2018* (the “**2018 Farm Bill**”), which changed hemp’s legal status by removing hemp and extracts of hemp from the schedules of the Controlled Substances Act (the “CSA”). Accordingly, the production, sale, and possession of hemp or extracts of hemp no longer violate the CSA.⁴ Under the 2018 Farm Bill, hemp 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% on a dry weight basis” (“**Hemp**”). The 2018 Farm Bill allows hemp cultivation under state plans approved by the U.S. Department of Agriculture (“**USDA**”) or under USDA regulations in states that have legalized hemp but not implemented their own regulations. As of April 2023, the USDA had approved 42 state plans, two Territory plans, and 53 tribal

⁴ The Agriculture Improvement Act of 2018, Pub. L. 115-334.

plans, and confirmed that 8 other states and 7 other tribes would allow entities to attain licenses under USDA regulations.⁵

At the federal level, however, cannabis remains a Schedule I controlled substance under the *Federal Controlled Substances Act of 1970* (“**Federal CSA**”). Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use and a lack of accepted safety for use under medical supervision. As such, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level. The Corporation’s U.S. cannabis operations are illegal under U.S. federal law and the enforcement of relevant laws remains a risk.

Since December 2014, companies strictly complying with state *medical* cannabis laws have also been protected against enforcement by a provision (originally called the Rohrabacher-Farr amendment, now known as the Joyce amendment) included annually in omnibus spending bills, which prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level. Courts have interpreted the provision to bar the Department of Justice (“**DOJ**”) from prosecuting any person or entity in strict compliance with state medical cannabis laws.⁶ The Joyce amendment was most recently extended on December 23, 2022, and is effective through September 30, 2023.⁷

Moreover, even while the Attorney General position was filled by Jeff Sessions, who rescinded the DOJ’s previously issued guidance permitting US Attorneys to exercise prosecutorial discretion in not prosecuting state-law compliant cannabis activities, the federal government has brought no criminal enforcement against any state-law compliant cannabis companies at all, not just those involved with medical cannabis. The absence of prosecutions reflects the strong public support of ending prosecutions particularly of state legal conduct, the difficulty of prosecuting a state medical cannabis licensee for activities in the same state’s adult use program without “interfering” with the state medical cannabis program, and prosecutors’ reluctance to bring cases particularly now that the President of the United States advocates for decriminalization and expungement.

President Biden has promised federal reform on cannabis, including decriminalization generally.⁸ In addition, members of U.S. Congress from both Democratic and Republican parties have introduced bills to end federal cannabis prohibition, by de-scheduling cannabis completely and regulating it. In the 117th Congress, Senators Cory Booker (D-NJ), Ron Wyden (D-OR), and Chuck Schumer (D-NY) filed the Cannabis Administration And Opportunity Act, a bill that would regulate cannabis and expunge prior

⁵ *Status of State and Tribal Hemp Production Plans for USDA Approval*, USDA, <https://www.ams.usda.gov/rules-regulations/hemp/state-and-tribal-plan-review> (last visited April 20, 2023).

⁶ See, e.g., *United States v. McIntosh*, 833 F.3d 1163 (9th Cir. 2016).

⁷ See Consolidated Appropriations Act, 2023, Public Law No. 117-328, § 531, <https://www.congress.gov/bills/117/congress/house-bill/2617/text> (“None of the funds made available under this Act to the Department of Justice may be used, with respect to any of the [states with medical marijuana programs], to prevent any of them from implementing their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana.”).

⁸ According to the Biden website, a Biden Administration “will decriminalize cannabis use and automatically expunge prior convictions. And, he will support the legalization of cannabis for medical purposes, leave decisions regarding legalization for recreational use up to the states, and reschedule cannabis as a schedule II drug so researchers can study its positive and negative impacts.” Biden-Harris, “The Biden Plan for Strengthening America’s Commitment to Justice,” <https://joebiden.com/justice/>. The Biden-Sanders Unity Platform, which was released at the time President Biden won the Democratic Party nomination for President, affirmed that his administration would seek to “[d]ecriminalize marijuana use and legalize marijuana for medical purposes at the federal level;” “allow states to make their own decisions about legalizing recreational use;” and “automatically expunge all past marijuana convictions for use and possession.” Biden-Sanders Unity Task Force Recommendations: Combating The Climate Crisis And Pursuing Environmental Justice, <https://joebiden.com/wp-content/uploads/2020/08/UNITY-TASK-FORCE-RECOMMENDATIONS.pdf>.

cannabis convictions; and Rep. Nancy Mace (R-SC) filed the States Reform Act, which would repeal the federal prohibition of and further regulate cannabis on the federal level. This session (the 118th) has seen additional incremental reform bills, including a bill that would direct the Attorney General of the United States to amend the CSA to move cannabis from schedule I to schedule III of the Act (the “Marijuana 1 to 3 Act”), and a bill to allow medical cannabis patients to purchase and possess firearms (the “Second Amendment Protection Act”). While the timing of federal reform remains unknown, it is expected that federal policy on cannabis will continue becoming more, rather than less, permissive, and legislative efforts to legalize cannabis or cannabis banking at the national level are likely to continue in 2023.

Biden’s pledge to “decriminalize” cannabis may be reasonably interpreted to mean that any Attorney General under his administration would be permitted to order U.S. Attorneys not to enforce the federal cannabis prohibition against state law compliant entities and others legally transacting business with them. Attorney General Garland has not publicly expressed any negative views toward cannabis legalization or decriminalization. During his confirmation hearing before the U.S. Senate, Attorney General Garland testified that prosecuting companies in “states that have legalized and that are regulating marijuana, either medically or otherwise,” would not be a “useful use of limited resources.”⁹ In April 2022, Attorney General Garland reiterated that prosecuting the possession of cannabis is “not an efficient use” of federal resources, especially “given the ongoing opioid and methamphetamine epidemic[s]” facing the nation.¹⁰ Therefore, the status quo of federal non-enforcement is expected to continue for the foreseeable future.¹¹ Additionally, industry advocates remain hopeful that some reform will be possible in the coming years, including banking reform.

On October 6, 2022, President Biden pardoned thousands of people with federal offenses for simple marijuana possession and directed the Attorney General and the Secretary of Health and Human Services “initiate the administrative process to review expeditiously how marijuana is scheduled under federal law.”¹² The President stated that the federal government is engaged in a “failed approach to marijuana” and noted the dissonance in the federal government’s classification of cannabis in Schedule I of the CSA, “the same schedule as for heroin and LSD, and even higher than the classification of fentanyl and methamphetamine.”¹³

The Corporation has obtained legal advice from U.S. legal counsel regarding: (a) compliance with applicable U.S. state regulatory frameworks; and (b) potential exposure and implications arising from U.S. federal law. The Corporation receives such advice on an ongoing basis but does not have a formal legal opinion on such matters.

⁹ See Attorney General Nominee Merrick Garland Testifies at Confirmation Hearing, <https://www.c-span.org/video/?508877-1/attorney-general-nominee-merrick-garland-testifies-confirmation-hearing>.

¹⁰ See Attorney General Garland Reconfirms the DOJ’s Hands-Off Approach Toward Federal Marijuana Prosecution, <https://www.jdsupra.com/legalnews/attorney-general-garland-reconfirms-the-9983989/>.

¹¹ Attorney General William Barr testified in his confirmation hearing on January 15, 2019, that he would not upset “settled expectations,” “investments,” or other “reliance interest[s]” arising as a result of the Cole Memo, and that he would not use federal resources to enforce federal cannabis laws in states that have legalized cannabis “to the extent people are complying with the state laws.” In that hearing, Barr went so far as to suggest that the CSA’s prohibitions of cannabis may be null in states that have legalized cannabis: “the current situation ... is almost like a back door nullification of federal law.” Supreme Court Justice Clarence Thomas has echoed Barr’s point about nullification. In a June 2021 opinion, Supreme Court Justice Clarence Thomas addressed the current state of federal prohibition and suggested that seminal case *Gonzales v. Raich* may be decided differently today: “If the Government is now content to allow States to act ‘as laboratories’ and try novel social and economic experiments, ... then it might no longer have authority to intrude on ‘[t]he States’ core police powers...to define criminal law and to protect the health, safety, and welfare of their citizens.’” *Standing Akimbo, LLC v. United States*, 141 S. Ct. 2236, 2238 (2021).

¹² The White House, “Statement from President Biden on Marijuana Reform” (Oct. 6, 2022) ([here](#)).

¹³ *Id.*

For further information, please see the discussion of the enforcement priorities of U.S. Attorneys in various U.S. states in which the Corporation operates or intends to operate set forth in subsequent sections including "*Risk Factors*."

Regulation of the Cannabis Market at State and Local Levels

The following sections present overviews of cannabis regulations in the states in which the Corporation currently has cannabis cultivation, manufacturing and distribution operations, namely Colorado and Vermont. Strict compliance with state laws does not relieve the Corporation of potential liability under U.S. federal law, nor does it provide a defense to any federal proceeding brought against the Corporation.

Summary of Colorado Regulatory Framework

Colorado has both medical and adult use cannabis programs. The Marijuana Enforcement Division ("**MED**") is the licensing and regulatory agency overseeing all retail and medical cannabis businesses in Colorado.

Licensed cannabis businesses in Colorado must have state and local approval for their license applications. Colorado state licenses are renewed annually. Each year, license holders are required to submit a renewal application per guidelines published by the MED. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, the licensed entities would expect to receive the applicable renewed license in the ordinary course of business.

Under applicable laws, the licenses permit the license holders to cultivate, manufacture, process, package, sell, or purchase cannabis pursuant to the terms of the licenses, which are issued by the MED under the provisions of Colorado Revised Statutes ("**C.R.S.**") sections 44-10-101 et seq. MED updates the rules regulating licensees periodically, and most recently, on October 11, 2022, adopted new rules which became effective on December 1, 2022, and amended the Code of Colorado Regulations ("**C.C.R.**") sections 1 C.C.R. 212-3.

Through its subsidiaries, Slang Colorado Manufacturing, Inc. ("**SCM**") and Slang Colorado Distribution, LLC ("**SCD**"), the Corporation holds Marijuana Enforcement Division Infused Product Manufacturer and Retail Marijuana Products Manufacturer licenses. Under these licenses, the Corporation's subsidiaries may manufacture cannabis products, including edibles, and distribute these products to licensed retailers.

Licenses and Regulations

Presently, the types of licenses available in Colorado include:

- *Retail Marijuana Store*: license type necessary to operate a business that sells Retail Marijuana to an individual 21 years of age or older as described in section 44-10-601 C.R.S.
- *Retail Marijuana Product Manufacturer*: license type necessary to operate a facility that manufactures retail cannabis-infused products such as edibles, concentrates or tinctures as described in section 44-10-603 C.R.S.
- *Retail Marijuana Testing Facility*: license type necessary to operate a facility that conducts potency and contaminants testing for other MED Licensed Retail Marijuana businesses as described in section 44-10-604 C.R.S.

- *Retail Marijuana Transporter*: license type necessary to provide transportation and temporary storage services to Retail Marijuana Businesses as described in section 44-10-605 C.R.S.
- *Retail Marijuana Business Operator*: license type necessary to provide professional operational services to one or more Retail Marijuana Businesses as described in section 44-10-606 C.R.S.
- *Retail Marijuana Accelerator Cultivator*: license type necessary to operate a retail marijuana product cultivation operation on the site of a retail marijuana cultivation facility with an accelerator endorsement as described in 44-10-607 C.R.S.
- *Retail Marijuana Accelerator Manufacture*: license type necessary to operate a retail marijuana product manufacturing operation on the site of a retail marijuana product manufacturing facility with an accelerator endorsement as described in 44-10-608 C.R.S.
- *Marijuana Hospitality Business*: license type necessary to operate a licensed premises that allows consumption of cannabis onsite as described in section 44-10-609 C.R.S.
- *Retail Marijuana Hospitality and Sales Business License*: license type necessary to operate a licensed premises where marijuana may be sold and consumed onsite as described in 44-10-610 C.R.S.
- *Retail Marijuana Accelerator Store License*: license type necessary for a social equity licensee to exercise the privileges of a retail marijuana store licensee on the premises of an accelerator-endorsed retail marijuana store as described in 44-10-611 C.R.S.
- *Medical Marijuana Store*: license type necessary to sell Medical Marijuana to Colorado Medical Marijuana Registry Patients and Transporting Caregivers, as described in 44-10-501 C.R.S.
- *Medical Marijuana Cultivation Facility*: license type necessary to operate a cultivation business to grow and harvest medical cannabis, as described in 44-10-502 C.R.S.
- *Medical Marijuana Products Manufacturer*: license type necessary to operate a business that produces Medical Marijuana Infused Products (“**Products**”), such as edibles, concentrates or tinctures, as described in section 44-10-503 C.R.S.
- *Medical Marijuana Testing Facility*: license type necessary to operate a facility that conducts potency and contaminants testing and research for MED Medical Marijuana business license holders as described in section 44-10-504 C.R.S.
- *Medical Marijuana Transporter*: license necessary to provide transportation and temporary storage services to MED Licensed Medical Marijuana Businesses as described in section 44-10-505 C.R.S.
- *Medical Marijuana Business Operator*: license type necessary to provide professional operational services to one or more MED Licensed Medical Marijuana Businesses as described in section 44-10-506 C.R.S.
- *Medical Marijuana Research and Development License*: license necessary to grow, cultivate possess and transfer cannabis for use in research only as described in section 44-10-507 C.R.S.

All cannabis establishments must register with the MED. If applications contain all required information and certain officers and owners are successfully vetted by the state, establishments are issued a license. In a local governmental jurisdiction that issues business licenses, the issuance by the MED of a cannabis license is considered provisional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local laws.

In the State of Colorado, only cannabis that is grown/produced in the state by a licensed establishment may be sold in the state. The state also allows the license holders to make wholesale purchase of cannabis from another licensed entity within the state.

Colorado law also imposes a number of recordkeeping, reporting, security, transportation and storage requirements on licensees.

Regulatory Framework

Colorado Revised Statutes Title 44, Article 10 provides the regulatory framework for both the medical and adult-use cannabis industries in Colorado. In addition to the statutes, the MED issues marijuana rules licensees must comply with, which are contained in 1 CCR 212-3. The MED Rules cover licensing and operating requirements, as well as license denial and approval criteria.

Licensing Requirements

Among other things, MED license applicants and licensees must provide the following information: (i) copy of the application for local approval submitted to the local jurisdiction, if required, (ii) certificate of good standing from the jurisdiction where the applicant entity was formed, (iii) identity and physical address of the registered Agent in Colorado, if the applicant is an entity, (iv) corporate governance and organizational documents, (v) legal right to occupy the premises necessary to operate the licensed business, (vi) an accurate and legible diagram of the facility, (vii) agreement to undergo required suitability findings for the individual owners of the business, including background checks, (viii) financial statements, and (ix) tax documents.

Licensees must renew MED licenses annually. MED may conduct announced and unannounced inspections of any licensed facilities to assess compliance with laws and rules. MED may also inspect a licensed premises upon receiving a complaint alleging that the licensee violated one or more rules. MED may also conduct an annual license renewal inspection prior to approval. Inspections may cover the entire physical premises, business records, personnel, equipment, security, and operational procedures.

A recent law also created a statewide equity program for the permitting process that provides for reductions in license fees, financial incentives, and mentorship programs for eligible licensees that were arrested or convicted, or had a family that was arrested or convicted, on a cannabis-related charge.

Requirements for Vaporizer Products

Since July 1, 2022, manufacturers of marijuana vaporizers have been required to meet certain testing and storage requirements. These requirements mandate the labelling of products with expiration dates, the calculation of which should include consideration of factors like additives used in making the vaporizer, the vaporizer's final formulation, and the vaporizer's ideal storage condition. Manufacturers of vaporizers must also submit every approved batch of vaporizers to a Colorado laboratory to be tested for metal contamination.

Recordkeeping and Reporting Requirements

The Corporation has a comprehensive compliance program which tracks all aspects of operations including transactions entered in the online seed-to-sale tracking system, also called an Inventory Tracking System or "METRC", in addition to compliance with all state and federal employment and safety regulations.

Security Requirements

MED licensees must always maintain fully operational alarm and video monitoring systems. Every external door or gate requires commercial grade, non-residential door locks. The alarm system must cover all entry points and must include motion detectors and pressure activated panic alarms. The 24-hour video surveillance system must record in a MED-approved digital format and maintain coverage over prescribed areas. The surveillance system must back up video footage pursuant to MED requirements. All video

surveillance records and recordings must be stored in a secure area that is only accessible to a Licensee's management staff. Additionally, the surveillance system must include the ability to print color still photographs upon request. Only authorized personnel may access areas of any licensed premises where cannabis may be present. Any vendors or contractors present on site must check in through a visitor log and must always be reasonably monitored by the licensee.

Transportation and Storage Requirements

Licensees must store retail and medical cannabis and cannabis products in a limited access, secured, locked room, vault, or safe during non-operating hours. Vaults that are large enough to allow a person to walk in must have cameras inside ensuring there are no blind spots. Smaller safes must be securely anchored to a permanent structure of an enclosed area. Printed METRC manifests must accompany any product transfer between licensees. The receiving licensee must verify the identity of the product(s) and ensure that the weight or number of units comports with the manifest. MED licensees must maintain all records for at least three years. During transport, the transporter must keep products in a locked receptacle within the vehicle and may not make any unnecessary stops.

Activities in Colorado

In Colorado, SLANG currently holds Colorado Department of Revenue, Marijuana Enforcement Division medical and retail manufacturing licenses through its subsidiaries SCM, and SCD. SCM manufactures all of Slang's products, except District Edibles, in the State of Colorado while, SCD manufactures District Edibles, as well as distributes the full suite of SLANG products within the State of Colorado.

Holding Entity	Permit / License	City	Expiration / Renewal Date (if applicable)	Description
Slang Colorado Manufacturing Inc.	404R-00051	Denver	03/24/2024	Manufacturing
Slang Colorado Manufacturing Inc.	404-00173	Denver	02/06/2024	Manufacturing
Slang Colorado Manufacturing Inc.	404-00204	Boulder	05/05/2024	Manufacturing
Slang Colorado Manufacturing Inc.	404R-00060	Boulder	05/05/2024	Manufacturing
Slang Colorado Distribution, LLC	404R-00266	Denver	09/06/2023	Manufacturing
Slang Colorado Distribution, LLC	404-00519	Denver	03/02/2024	Manufacturing

Summary of State of Vermont Regulatory Framework

Vermont's medical cannabis program was introduced in May 2004 when Senate Bill 76 was approved by the Vermont House and Senate. This legislation permitted state-qualified patients to grow and possess

marijuana for medicinal purposes. Senate Bill 7 was approved by the Vermont House and Senate in June 2007 and expanded the list of qualifying conditions and increased the number of plants that patients may legally cultivate, among other things. In June 2011, the Vermont legislature passed Senate Bill 17, the “Vermont Marijuana for Symptom Relief Act,” which, among other things, authorized a state-regulated system for medical cannabis sales through licensed dispensaries. The first medical cannabis sales were made to patients in 2012. The medical market consists of five vertically integrated licenses. Each license permits the owner to operate a grow/processing facility and up to two dispensaries. As of April 2023, there were six operational medical cannabis dispensaries. A large variety of medical cannabis products are allowed in the state, including smokable cannabis flower.

In January 2018, Vermont became the first state to legalize cannabis via the legislature when Governor Scott signed H. 511, which legalized possession of up to one ounce of cannabis, among other things, though did not create a state-regulated system for adult-use sales. In October 2020, Governor Scott announced that he would allow legislation to regulate and tax adult-use cannabis sales, S.54, to become law without his signature. That legislation created the Vermont Cannabis Control Board (“CCB”), which oversees both the medicinal and adult-use cannabis programs.

In August 2021, the Corporation acquired Hi-Fi, a vertically integrated cannabis company, which possesses 2 of Vermont’s 5 existing medical marijuana licenses and operates three dispensary locations. HiFi currently has one cultivation facility located in Milton, Vermont with additional greenhouse cultivation capacity to meet the demand of adult-use sales.

On September 14, 2022, CCB announced three entities who had been approved to make adult use retail sales in Vermont, including Champlain Valley Dispensary, Inc., CeresMED, Ceres (Burlington) as an integrated license. As of April 20, 2023, over 50 retail locations have been licensed for adult use sales.

Licenses and Regulations

In Vermont, the CCB regulates both medical and adult-use cannabis sales in the future. Vermont law permits cannabis possession and home cultivation by adults at least 21 years old within certain limits. While medical patients may continue to purchase from any of the six medical cannabis dispensaries, all persons over 21 may purchase cannabis products from the retailers approved to make adult-use sales.

Under its medical dispensary licenses, the Corporation may cultivate, manufacture, transport, supply, and sell cannabis and cannabis-infused products and supplies to registered medical cannabis patients.

Regulatory Framework

The Vermont Statutes Annotated provide the underlying framework for medical and adult-use cannabis in 7 V.S.A. Chs. 31, 33, 35, 37, and 39. Additionally, the Cannabis Control Board regulates both medical cannabis and adult-use cannabis in the state and issues board rules (Vt. Admin. Code 26-1-1:1 *et seq.*) that address, among other things, licensing requirements as well as license denial and approval criteria.

Licensing Requirements

Medical cannabis licensees must demonstrate that (i) they are a non-profit entity; (ii) they have an appropriate business plan, adequate supply of medical cannabis, and security protocols in place for all aspects of operations; (iii) they have the legal right to occupy the premises necessary to operate the licensed business; (iv) all applicable owners have passed background screening; and (v) the licensed

premises is not prohibited for the use under local regulations. Adult use cannabis licensees are not limited to non-profit entities, but otherwise have similar requirements for licensure as medical licensees (in addition to the business plan, security and location requirements, adult-use cannabis establishments must also provide information about financiers, any other agreements granting control of the establishment, and submit a positive impact statement re diversity and sustainability).

Licensees must renew their licenses annually. The CCB may conduct announced and unannounced inspections of any licensed facilities to assess compliance with laws and rules. The CCB may also inspect licensed premises upon receiving a complaint alleging that the licensee violated one or more rules. The CCB may also conduct an annual license renewal inspection prior to approval. Inspections may cover the entire physical premises, business records, personnel, equipment, security, and operational procedures.

Security Requirements

Licensees must always maintain fully operational alarm and video monitoring systems. Cannabis and cannabis products must be stored in areas within the facility secured by a double locking mechanism. In compliance with Vermont regulations, registered dispensaries shall ensure that customers do not have direct access to cannabis and cannabis-infused products, except upon the request to examine a specific product. Only one product may be examined at a time and then immediately returned to its proper location unless the customer has elected to purchase the product. The alarm system must have an immediate automatic electronic notification system, connected to an outside security provider that professionally monitors for unauthorized entry and robbery events. The surveillance system must monitor customer service areas, cultivation areas, entry and egress areas, and any other areas at the registered location containing cannabis, including processing and packing areas. The video surveillance system must record in an CCB-approved format. The surveillance system must back up video footage pursuant to CCB requirements and maintain all videos for at least 30 days. The general public may only access certain areas of a retailer premises, and only authorized personnel who are security cardholders may access certain areas of any licensed premises.

Transportation and Storage Requirements

CCB licensees must store cannabis and cannabis products in a secured, locked room, vault, or safe during non-operating hours. During transport, cannabis must be secured, and the transporter vehicle may not make any unnecessary stops. The receiving licensee must verify the identity of the product(s) and ensure that the weight or number of units comports with the trip ticket (shipping manifest). CCB licensees must maintain all records and securely store any confidential customer information.

Activities in Vermont

In August 2021, the Corporation acquired Hi-Fi, a vertically integrated Vermont cannabis company, which holds two of the medical cannabis licenses available in Vermont, and under those, operates three medical dispensaries and one 28,000 sq. ft. cultivation, processing, and distribution facility.

On September 28, 2022, the Corporation received a retail marijuana license, allowing the Corporation to open its CERES Collaborative dispensary on October 1, 2022, Vermont's first recreational cannabis store. The dispensary is a 1,500 square foot recreational retail location in Burlington, Vermont.

Compliance Practice

The Corporation is in compliance with applicable licensing requirements and the regulatory frameworks enacted by the states of Colorado, Vermont, and all other states it operates within. The Corporation has not experienced any non-compliance nor has been subject to any notices of violation by the relevant cannabis regulatory authorities.

The Corporation continuously works with its advisors and legal counsel to ensure that it has an understanding of licensing requirements and the regulatory framework enacted by the applicable U.S. states in which it and each of its customers operate. In addition, prior to entering into commercial arrangements, the Corporation completes due diligence procedures and the agreements governing such commercial arrangements will typically contain customary provisions regarding compliance with laws, where applicable.

While the Corporation's business activities are compliant with applicable state and local law, such activities remain illegal under the federal laws of the United States.

Risk Factors

The following are the specific and general risks that could affect the Corporation and its business. Additional risks and uncertainties not presently known to the Corporation or that the Corporation does not currently anticipate will be material, may impair the Corporation's business operations and its operating results and as a result could materially impact its business, results of operations, prospects and financial condition. Readers should additionally refer to the risk factors set out in the Corporation's most recent annual management discussion and analysis, which, together with the risk factors below, do not necessarily constitute an exhaustive list.

These risks and uncertainties discussed below are not the only ones facing the Corporation. Additional risks and uncertainties not presently known to the Corporation or currently deemed immaterial by the Corporation, may also impair the operations of the Corporation. If any such risks actually occur, shareholders of the Corporation could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Corporation could be materially adversely affected and the ability of the Corporation to implement its growth plans could be adversely affected.

The acquisition of any of the securities of the Corporation is speculative, involving a high degree of risk and should be undertaken only by persons whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of the Corporation should not constitute a major portion of an individual's investment portfolio and should only be made by persons who can afford a total loss of their investment. The investor should carefully evaluate the following risk factors associated with the Corporation's securities, along with the risk factors described elsewhere in this MD&A.

Risks Related to Illegality of Cannabis Under U.S. Law

The Corporation faces the significant risk of enforcement of U.S. federal laws regarding cannabis.

Enforcement of U.S. federal law is a significant risk to cannabis businesses operating in the U.S., including the Corporation. For over eight years, the federal government has not enforced the CSA's cannabis prohibition against persons or companies complying with state laws governing state regulated cannabis programs, and neither President Biden nor Attorney General Garland has indicated that the federal government will commence such prosecutions. However, there is no formal law or even guidance

precluding criminal claims against state-legal cannabis companies. There can be no assurance that the U.S. federal government will not seek to prosecute cases involving cannabis businesses, including those of the Corporation, notwithstanding compliance with state law. Such proceedings could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition, as well as the Corporation's reputation and ability to raise capital.

Further, violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Corporation, including its reputation and ability to conduct business, its ability to list its securities on stock exchanges, its financial position, its operating results, its profitability or liquidity or the value of its securities. In addition, the time of management and advisors of the Corporation and resources that would be needed for the investigation of any such matters or their final resolution could be substantial.

Under the Federal CSA, cannabis is classified as a Schedule I drug. Even in those states in which the use of cannabis has been legalized under state law, its production, manufacture, processing, possession, distribution, sale and use remain a federal crime. Strict enforcement of U.S. federal law regarding cannabis could result in the Corporation's inability to proceed with the Corporation's business plan. There can be no assurance that the U.S. federal government will not seek to prosecute cases involving cannabis-related businesses, including the business of the Corporation. Companies and individuals involved with or in the Corporation's business, including investors, may be exposed to criminal liability, and any real or personal property used in connection with its business could be subject to seizure and forfeiture to the U.S. federal government or its agencies.

As a result of the states' and the U.S. federal government's conflicting laws on cannabis, cannabis-related businesses in the U.S. are subject to inconsistent legislation, regulation and enforcement. Unless and until the U.S. Congress amends the Federal CSA with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and there can be no assurance as to the timing or scope of any such potential amendments), there is a risk that U.S. federal authorities may enforce current U.S. federal law, which would adversely affect the Corporation. As a result of the inconsistency between state and federal law, there are a number of risks associated with the Corporation's existing and proposed operations in the U.S. Compliance with state and local laws does not absolve the Corporation of its liability under U.S. federal law.

The Corporation is subject to anti-money laundering laws, banking regulations and lacks bankruptcy protection

Under U.S. federal law, it may be a violation of federal anti-money laundering statutes for financial institutions to take more than \$10,000 of proceeds from the sale of cannabis or for persons to deposit more than \$10,000 of such proceeds in a financial institution or to conceal the source of the funds or put them back into criminal activity. Canadian banks are likewise hesitant to deal with cannabis companies due to the industry's uncertain legal and regulatory framework in the U.S. In February 2014, the Federal Crimes Enforcement Network of the U.S. Department of the Treasury ("**FinCEN**") issued a memorandum outlining how financial institutions can provide banking services to state-sanctioned cannabis businesses without violating the Bank Secrecy Act. Regardless, because FinCEN's guidance creates onerous requirements for due diligence of customers, requires the filing of certain suspicious activity reports, and does not otherwise remove federal criminal liability, many banks have chosen not to serve the state licensed cannabis companies.

The U.S. DOJ continues to have the power to prosecute AML crimes, including in states that have legalized the applicable underlying conduct, and the U.S. DOJ's current enforcement priorities could change for any number of reasons, including a change in the opinions of the President of the U.S. or the U.S. Attorney General. A change in the U.S. DOJ's enforcement priorities could result in the U.S. DOJ prosecuting banks, financial institutions, or ancillary companies serving state-legal cannabis companies for crimes that previously were not prosecuted.

The lack of banking and financial services presents unique and significant challenges to businesses operating in and ancillary to the cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the lack of traditional banking and financial services available to businesses operating in or ancillary to the cannabis industry.

Additionally, the Corporation does not currently have protection under U.S. bankruptcy laws. U.S. bankruptcy laws were adopted to protect financially troubled businesses and to provide for orderly distributions to business creditors. All bankruptcy cases are handled in U.S. federal courts, and the U.S. DOJ has stated that it is the United States Trustee Program's ("**USTP**") position that no assets associated with the cannabis industry can be liquidated or restricted following bankruptcy without violating the Federal CSA. In addition, the Director of the USTP issued a letter to 1,100 trustees who administer bankruptcy cases urging the trustees to monitor and report to the U.S. DOJ cannabis companies looking to declare bankruptcy.

If any of the Corporation's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the U.S. are 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 the Corporation to declare or pay dividends and could affect other distributions, including the Corporation's ability to transfer funds into Canada. Furthermore, while the Corporation has no current intentions to declare or pay dividends in the foreseeable future, if a determination was made that the Corporation's proceeds from operations (or any future operations or investments in the U.S.) could reasonably be shown to constitute proceeds of crime, the Corporation may decide, or be required, to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Access to public and private capital may not be available

The Corporation may have difficulty accessing the services of banks, which may make it difficult for the Corporation to operate. Since the use of cannabis is illegal under U.S. Federal Law, and in light of concerns in the banking industry regarding money laundering and other federal financial crime related to cannabis, U.S. banks have been reluctant to accept deposit funds from businesses involved with the cannabis industry. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to accept their business. Likewise, cannabis businesses have limited, if any, access to credit card processing services. As a result, cannabis businesses in the U.S. are largely cash-only. This complicates the implementation of financial controls and increases security issues. The inability to open or maintain bank accounts or take credit cards may make it difficult for the Corporation to operate. The lack of banking and financial services presents unique and significant challenges to businesses in the cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of cheques and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and

financial services. The Corporation has historically had access to equity and debt financing from the prospectus-exempt (private placement) markets in Canada, and anticipates that these financing options will continue to be available. The Corporation also anticipates access to public capital will continue to be available. Nevertheless, there can be no assurance that additional financing will be available to us when needed or on terms which are acceptable. The Corporation's inability to complete financings to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

Enforcement of cannabis laws may be subject to change

As a result of the conflicting views between state legislatures and the U.S. federal government regarding cannabis, investments in cannabis businesses in the U.S. are subject to inconsistent legislation and regulation.

Any legal proceedings involving the Corporation could involve significant restrictions imposed upon the Corporation or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Corporation, as well as the Corporation's reputation, even if such proceedings were concluded successfully in favor of the Corporation. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of the Corporation or the seizure of corporate assets; however as of the date hereof, the Corporation believes that proceedings of this nature are remote.

There is no certainty as to how the U.S. DOJ, Federal Bureau of Investigation and other U.S. federal government agencies will handle cannabis matters in the future. Further, in late 2020 the U.S. underwent a federal election, and in early 2021 Joe Biden became president of the U.S. While so far there does not appear to be a departure from previous administrations regarding cannabis enforcement, there can be no assurances that the Biden administration will not change the current enforcement policy and decide to strongly enforce the federal laws. The Corporation regularly monitors the activities of the current administration in this regard.

For further information, please see the discussion of the U.S. regulatory framework under the section heading "*Regulatory Overview – United States Federal Overview*".

Risks Related to the Corporation's Business

The Corporation's business is highly regulated and evolving rapidly

The Corporation operates in a new industry that is highly regulated and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all risks or be able to predict how such risks may result in actual results differing from the results contained in any forward-looking statements.

The Corporation will incur ongoing costs and obligations related to regulatory compliance

Failure to comply with applicable regulations may result in additional costs for corrective measures, penalties or restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations or increased compliance costs, or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Corporation.

The Corporation's ability to expand its business in other jurisdictions is uncertain

The Corporation intends to continue expanding its operations in its Emerging Markets. The ability of the Corporation to do so, from both an operational and regulatory perspective, is subject to significant uncertainty and risks. The Corporation will need to obtain and maintain licenses, permits and other authorizations to operate a business involving cannabis in these jurisdictions, and the Corporation cannot guarantee it will be able to do so successfully, or with the amount of time and resources that will be required to do so. In addition to regulatory uncertainty, the Corporation expects the cannabis market in the Emerging Markets to be highly competitive. The Corporation cannot provide any assurances that it will be able to successfully expand its business in these or other jurisdictions.

The Corporation may acquire businesses or enter into strategic partnerships

As part of the Corporation's business strategy, the Corporation may pursue strategic partnerships or acquire businesses that are complementary to the Corporation's current business operations. Such partnerships or acquisitions may expose the Corporation to particular risks, including risks associated with: (i) integrating new operations, services and personnel; (ii) unknown or undisclosed liabilities; (iii) diverting resources from existing business operations; (iv) potential inability to generate sufficient revenue to offset costs; (v) acquisition expenses; and (vi) potential loss of or harm to existing relationships with employees, consultants, vendors, suppliers, contractors, and other parties from the integration of new businesses. Furthermore, any proposed acquisitions or partnerships may require regulatory approval. Issues arising from such partnerships or acquisitions could have a material adverse effect on the Corporation's business, financial conditions or results of operations.

Laws will continue to change rapidly for the foreseeable future and local laws and ordinances could restrict the Corporation's business operations

Local, state and federal laws and enforcement policies concerning cannabis-related conduct are changing rapidly and will continue to do so for the foreseeable future. There can be no assurance that existing state laws that legalize and regulate the production, sale and use of cannabis will not be repealed, amended or overturned. In addition, local governments have the ability to limit, restrict and ban cannabis-related businesses from operating within their jurisdictions. Land use, zoning, local ordinances and similar laws could be adopted or changed in a manner that makes it extremely difficult or impossible to transact business in certain jurisdictions. These potential changes in state and local laws are unpredictable and could have a material adverse effect on the Corporation's business.

The Corporation's success depends on its ability to obtain and maintain required government licenses and permits

Government licenses and permits are currently, and may in the future, be required in connection with the Corporation's operations. The Corporation's success depends on its ability to maintain and renew its licenses and permits. To the extent such licenses and permits are required and are not obtained or lapse, the Corporation may be curtailed or prohibited from its proposed production of medical or adult-use cannabis or from proceeding with the development of its operations as currently anticipated.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities, causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or other remedial actions. The Corporation may be required to compensate those

suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed on it for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical and adult-use cannabis, or a more stringent implementation thereof, could have a material adverse impact on the Corporation and cause increases in expenses, capital expenditures or production costs, could cause a reduction in levels of production or could require abandonment or delays in development. Additionally, the Corporation's success is contingent upon many variables not in its control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority.

While the Corporation's compliance controls have been developed to mitigate the risk of any material violations of any license, permit, or certificate the Corporation holds, there is no guarantee that the Corporation's licenses, permits, or certificates will be renewed with the applicable regulatory authority in a timely manner. Any unexpected delays or costs associated with the permitting and licensing process may impede the Corporation's operations and have a material adverse effect on the Corporation's business, financial condition and results of operations or prospects.

For further information, please see the discussion of the various U.S. states regulatory frameworks under the section heading "*Regulatory Overview – Regulation of the Cannabis Market at State and Local Levels*".

The Corporation may be subject to heightened scrutiny by Canadian, U.S., and other regulatory authorities

For the reasons set forth herein, the Corporation's existing investments and operations in the U.S., and any future investments and operations, may become the subject of heightened scrutiny by regulators, stock exchanges, third party service providers, financial institutions, depositories and other authorities in Canada, the U.S. or other jurisdictions. As a result, the Corporation may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Corporation's ability to operate in U.S., Canada and other jurisdictions.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a memorandum of understanding ("**MOU**") with the Neo Exchange Inc., the CSE, the Toronto Stock Exchange and the TSX Venture Exchange. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the stock exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when the Common Shares are listed on a Canadian stock exchange, it would have a material adverse effect on the ability of holders of the Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid until an alternative was implemented, and investors would have no ability to affect a trade of the Common Shares through the facilities of the applicable stock exchange.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the 2013 Cole Memorandum, on February 8, 2018 the Canadian Securities Administrators published Staff Notice 51-352 setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff

Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. For these reasons, the Corporation's operations in the U.S. cannabis market may subject the Corporation to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian and U.S. authorities.

The Corporation may suffer reduced profitability if it loses foreign private issuer status in the U.S.

If, as of the last business day of the Corporation's second fiscal quarter for any year, more than 50% of the Corporation's outstanding voting securities (as defined in the *United States Securities Act of 1933*, as amended) are directly or indirectly held of record by residents of the U.S., the Corporation will no longer meet the definition of a "Foreign Private Issuer" under the rules of the U.S. Securities and Exchange Commission. If the Corporation fails to qualify for Foreign Private Issuer status, it will remain unqualified unless it meets the test as of the last business day of its second fiscal quarter. This change in status could have a significant effect on the Corporation as it would significantly complicate the raising of capital through the offer and sales of securities and reporting requirements, resulting in increased audit, legal and administration costs. The ability of the Corporation to be profitable could be significantly affected.

Border crossing for non-U.S. residents may create additional challenges

Although cannabis use and sale is legal and regulated in numerous U.S. states, individuals who are not U.S. residents and are employed or involved with licensed cannabis companies could be denied entry or face lifetime bans from the U.S. for their involvement with such companies. There has been increasing anecdotal evidence of non-U.S. residents who are involved in the cannabis industry being denied entry at the U.S. border or facing lifetime bans from the U.S. after disclosing to U.S. border officials the nature of their involvement. The Board of Directors (the "**Board**") is made up of both U.S. and non-U.S. residents, so there is no guarantee that certain members of the Board would not be subject to such denials or bans. Should a director be prevented from entering the U.S., either in one instance or permanently, their ability to serve the Corporation as a Board member could be hindered. This could equally impact any other non-U.S. resident involved with the Corporation, including, but not limited to, both investors and employees.

Risks related to the COVID-19 pandemic

The novel coronavirus commonly referred to as "**COVID-19**" was identified in December 2019 in Wuhan, China. On January 30, 2020, the World Health Organization declared the outbreak a global health emergency, and on March 11, 2020, the spread of COVID-19 was declared a pandemic by the World Health Organization. On March 13, 2020, the spread of COVID-19 was declared a national emergency by former U.S. President Donald Trump. The outbreak has spread throughout Europe, the Middle East and North America, causing companies and various international jurisdictions to impose restrictions such as quarantines, business closures and travel restrictions. The impacts of COVID-19 are still being seen throughout the world, and the rise of COVID-19 variants continues to pose a threat on businesses. The Corporation continues to monitor the impact of the pandemic, with close attention to the risks in the following principle areas: (a) mandatory closures; (b) customer impact; (c) supply chain disruption; (d) staffing disruption; and (e) regulatory blocking.

Further, the Corporation may need to reduce its workforce. For example, if employees' concerns over potential exposure to COVID-19 or social distancing measures imposed by governments require employees to shelter-in-place, the Corporation's revenue could be adversely impacted and as a result, the Corporation

may be required to reduce its workforce in response. Furthermore, self-quarantine of any employees who potentially came into contact with the coronavirus disease or general viral health issues may result in employee shortages at the Corporation's facilities. The Corporation's business is generally not the type of business that can operate with employees working remotely; therefore, given the uncertainty around the severity and length of COVID-19 and any new COVID-19 variants, the Corporation cannot reasonably estimate the impact to the Corporation's financial condition or results of operations or prospects in the event of a reduced workforce.

The Corporation is actively addressing the risk to business continuity through the implementation of a broad range of measures throughout its structure and is reassessing its response to COVID-19 on an ongoing basis. The above risks individually or collectively may have a material impact on the Corporation's ability to generate revenue. Implementing measures to remediate the risks identified above may materially increase our costs of doing business, reduce our margins and potentially result in losses. While the Corporation is not currently in financial distress, if the Corporation's financial situation materially deteriorates as a result of the impact of the pandemic, the Corporation could eventually be unable to meet its obligations to third parties, which in turn could lead to insolvency and bankruptcy of the Corporation.

The retail and wholesale prices of cannabis products may decline

Due to intense competition in the cannabis market, the retail and wholesale prices of cannabis products may significantly decline and may further decline as a result of COVID-19. The Corporation's operating income may be significantly and adversely affected by a decline in the price of cannabis and will be sensitive to changes in the overall condition of the cannabis industry the states and jurisdictions in which it operates.

Legalization of Hemp under the 2018 Farm Bill may affect the cannabis market

On December 20, 2018, former President Trump signed into law the 2018 Farm Bill, which changed hemp's legal status by removing hemp and extracts of hemp from the CSA schedules. Accordingly, the production, sale, and possession of hemp or extracts of hemp no longer violate the CSA. Under the 2018 Farm Bill, hemp 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% on a dry weight basis. The 2018 Farm Bill allows hemp cultivation under state plans approved by the USDA or under USDA regulations in states that have legalized hemp but not implemented their own regulations. As of April 2023, the USDA had approved 42 state plans, two Territory plans, and 53 tribal plans, and confirmed that 8 other states and 7 other tribes would allow entities to attain licenses under USDA regulations.¹⁴

The Corporation will require additional financing

The Corporation will require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Corporation when needed or on terms which are acceptable. The Corporation's inability to raise financing to fund on-going operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Corporation's business, results of operations, financial condition or prospects.

¹⁴ Status of State and Tribal Hemp Production Plans for USDA Approval, USDA, <https://www.ams.usda.gov/rules-regulations/hemp/state-and-tribal-plan-review> (last visited April 20, 2023).

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of the Common Shares.

Depending on the availability of traditional banking services to the Corporation, the Corporation may enter into one or more credit facilities with one or more lenders in order to finance the acquisition of the Corporation's investments. It is anticipated that any such credit facility will contain a number of common covenants that, among other things, might restrict the ability of the Corporation to: (i) acquire or dispose of assets or businesses; (ii) incur additional indebtedness; (iii) make capital expenditures; (iv) make cash distributions; (v) create liens on assets; (vi) enter into leases, investments or acquisitions; (vii) engage in mergers or consolidations; or (viii) engage in certain transactions with affiliates, and otherwise restrict activities of the Corporation (including its ability to acquire additional investments, businesses or assets, certain changes of control and asset sale transactions) without the consent of the lenders. In addition, such a credit facility would likely require the Corporation to maintain specified financial ratios and comply with tests, including minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. Such restrictions may limit the Corporation's ability to meet targeted returns and reduce the amount of cash available for investment. Moreover, the Corporation may incur indebtedness under credit facilities that bear interest at a variable rate. Economic conditions could result in higher interest rates, which could increase debt service requirements on variable rate debt and could reduce the amount of cash available for the Corporation's purposes.

The Corporation has limited operating history and faces the risks associated with any new business operating in a competitive industry

As a high growth enterprise, the Corporation does not have a history of profitability. The Corporation is therefore subject to many of the risks common to early-stage enterprises, including undercapitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Corporation 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.

Any financial projections and business plans reflect the Corporation's intentions and estimates, but they may not be realized and are subject to change in all respects

Any financial projections and business plans that the Corporation has performed are based on a variety of estimates and assumptions, which may not be realized and are inherently subject to significant business, economic, legal, regulatory and competitive uncertainties, many of which are beyond the Corporation's control. There can be no assurance that any such projections and plans will be realized, and actual results may materially differ from such projections and plans.

Customers for the Corporation's U.S. cannabis business are limited

The customers of the Corporation's U.S. cannabis business are limited to other licensed cannabis businesses within the states in which it operates. The sale of cannabis and cannabis-related products across state lines in the U.S. is not permitted. Consequently, the Corporation has a limited customer base.

The Corporation's business is highly competitive

The regulated cannabis market is intense, rapidly evolving and competitive. There can be no assurance that the Corporation's competitors, some of which have longer operating histories and more resources than

the Corporation, will not develop products and services that achieve greater market share than the Corporation's products and services. Such competitive forces could have a material adverse impact on the Corporation's business, financial condition and results of operations.

The Corporation will not be able to deduct many normal business expenses for U.S. federal income tax purposes

Under Section 280E of the U.S. Internal Revenue Code ("**Section 280E**"), many normal business expenses incurred in the production and sale of cannabis and its derivatives are not deductible in calculating U.S. federal income tax liability. As a result, businesses that are subject to Section 280E have significantly higher tax expenses than non-Section 280E businesses and often owe federal income taxes even if the business is not profitable. The application of Section 280E will have a material adverse effect on the Corporation's U.S. federal income tax obligations.

The Corporation is a U.S. domestic corporation for U.S. federal income tax purposes

The Corporation, which is and will continue to be a Canadian company as of the date hereof, generally would be classified as a non-United States company under general rules of United States federal income taxation. Section 7874 of the U.S. Tax Code, however, contains rules that can cause a non-United States company to be taxed as a United States company for United States federal income tax purposes. Under section 7874 of the U.S. Tax Code, a company created or organized outside the United States. (i.e., a non-United States company) will nevertheless be treated as a United States company for United States federal income tax purposes (such treatment is referred to as an "**Inversion**") if each of the following three conditions are met: (i) the non-United States company acquires, directly or indirectly, or is treated as acquiring under applicable United States Treasury Regulations, substantially all of the assets held, directly or indirectly, by a United States company, (ii) after the acquisition, the former stockholders of the acquired United States Corporation hold at least 80% (by vote or value) of the shares of the non-United States company by reason of holding shares of the United States acquired company, and (iii) after the acquisition, the non-United States company's expanded affiliated group does not have substantial business activities in the non- United States company's country of organization or incorporation when compared to the expanded affiliated group's total business activities.

For this purpose, "expanded affiliated group" means a group of corporations where (i) the non-United States corporation owns stock representing more than 50% of the vote and value of at least one member of the expanded affiliated group, and (ii) stock representing more than 50% of the vote and value of each member is owned by other members of the group. The definition of an "expanded affiliated group" includes partnerships where one or more members of the expanded affiliated group own more than 50% (by vote and value) of the interests of the partnership.

The Corporation intends to be treated as a United States company for United States federal income tax purposes under section 7874 of the U.S. Tax Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Corporation is expected, regardless of any application of section 7874 of the U.S. Tax Code, to be treated as a Canadian resident company (as defined in the *Income Tax Act* (Canada)) for Canadian income tax purposes. As a result, the Corporation will be subject to taxation both in Canada and the United States, which could have a material adverse effect on its financial condition and results of operations.

Third-party service providers could suspend or withdraw services as a result of the Corporation's cannabis business

As a result of any adverse change to the approach in enforcement of U.S. cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse changes in public perception in respect of the consumption of cannabis or otherwise, third-party service providers to the Corporation could suspend or withdraw their services, which may have a material adverse effect on the Corporation's business, revenues, operating results, financial condition or prospects.

Courts may not enforce the Corporation's contracts

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal in the U.S. at the federal level, judges in multiple U.S. states have on a number of occasions refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate U.S. federal law, even if there was no violation of state law. There remains doubt and uncertainty that the Corporation will be able to legally enforce contracts it enters into, if necessary. The Corporation cannot be assured that it will have a remedy for breach of contract, which could have a material adverse effect on the Corporation.

The Corporation faces possible competition from synthetic cannabis production and technological advances

The pharmaceutical industry may attempt to enter the cannabis industry, and in particular, the medical cannabis industry, through the development and distribution of synthetic products that emulate the effects of and treatment provided by naturally-occurring cannabis. If synthetic cannabis products are widely adopted, the widespread popularity of such synthetic cannabis products could change the demand, volume and profitability of the cannabis industry. This could adversely affect the ability of the Corporation to secure long-term profitability and success through the sustainable and profitable operation of its business.

There are risks inherent in an agricultural business

Cannabis is an agricultural product. There are risks inherent in the agricultural business, such as damage to crops caused by insects, plant diseases, pesticide contamination and similar agricultural risks. There can be no assurance that such elements will not have a material adverse effect on the production of the Corporation's products.

Some of the Corporation's supply of cannabis source material are acquired from third parties

The Corporation does not cultivate sufficient cannabis to supply itself with enough cannabis source material to operate its manufacturing business. Currently, the Corporation acquires some of its cannabis source material from third parties. There can be no assurance that there will continue to be a sufficient amount of cannabis source material available to the Corporation to continue operating its manufacturing business. Specifically, the impact of COVID-19 may adversely impact the Corporation's third-party suppliers, resulting in an insufficient supply of cannabis source material. Additionally, the price of cannabis source material may rise which would increase the Corporation's cost of goods. If the Corporation became unable to acquire cannabis source material or if the price of cannabis source material increased, it could have a material adverse impact on the business of the Corporation, its financial condition and results from operations.

The Corporation's success depends on the skills and expertise of its officers, key employees and advisors

The Corporation's success substantially depends on the skills, talents, abilities and continued services of its officers, key employees and advisors. There is no guarantee that the Corporation's officers and employees will manage its business successfully.

The Corporation's success depends on its ability to hire and retain additional qualified individuals

The Corporation's success substantially depends on its ability to hire and retain individuals to implement its business plan. There is no assurance that the Corporation will be able to hire or retain qualified individuals, or that the individuals hired will be able to successfully implement its business plan.

Environmental risk and regulation could adversely affect the Corporation's operations

The Corporation's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which may require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Corporation's business, revenues, operating results, financial condition or prospects.

Public opinion, consumer perception or unfavorable publicity could influence the regulation of the cannabis industry

Public opinion may also significantly influence the regulation of the cannabis industry in Canada, the U.S. or elsewhere. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and has varied from jurisdiction to jurisdiction. A negative shift in the public's perception of cannabis in the U.S., Canada or any other applicable jurisdiction could affect future legislation or regulation of cannabis. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new jurisdictions into which the Corporation could expand. A shift in public opinion or consumer perception may have a material adverse effect on the Corporation. Additionally, unfavorable publicity concerning the safety, efficacy or quality of cannabis could affect public opinion or consumer perception even if a consumer experienced negative or harmful effects from cannabis products due to the consumer's failure to use such products appropriately. Any inability to fully implement the Corporation's expansion strategy may have a material adverse effect on the Corporation's business, financial condition or results of operations.

The Corporation may face product liability claims

As a producer and manufacturer of products designed for ingestion by humans, the Corporation faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if the products are alleged to have caused significant injury or loss. Additionally, the manufacture and sale of cannabis involves risk of injury to consumers due to tampering by unauthorized third parties or by product contamination. Previously unknown adverse reactions resulting from human consumption of products sold or marketed by the Corporation, alone or in combination with other medications and substances, could occur. The Corporation may also be subject to product liability claims alleging that the cannabis product that caused injury or illness included inadequate instructions for the use of the product, or included inadequate warnings concerning possible side effects of or interactions with other substances. A product liability claim or

regulatory action against the Corporation could adversely affect the Corporation's reputation with its clients and consumers generally, and could result in a material adverse effect on the business, results of operations or prospects of the Corporation. There can be no assurance that the Corporation will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expense and may not be available in the future on acceptable terms or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims may have a material adverse effect on the Corporation.

Product recalls could adversely affect the Corporation's operations

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as malfunctioning hardware, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Corporation's products are recalled due to an alleged product defect or for any other reason, the Corporation could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Corporation 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 the Corporation's products and could have significant reputational and brand damage. Although the Corporation has detailed procedures in place for testing its products, there can be no assurance that any quality 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 the Corporation's products and could have a material adverse effect on the results of operations and financial condition of the Corporation. Additionally, product recalls may lead to increased scrutiny of the Corporation's operations by regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Results of future clinical research could influence the regulation of the cannabis industry and may have an adverse effect on the Corporation's business

The Corporation believes the medical and adult-use cannabis industries are highly dependent upon consumer perception regarding the safety, efficacy and quality of cannabis. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the cannabis industry or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity may not be favorable to the cannabis industry or any particular product and may be inconsistent with publicity which could result in a material impact on the demand for cannabis and thus, on the business, results of operations, financial condition, cash flows or prospects of the Corporation. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of medical and adult-use cannabis with illness or other negative effects or events, could have a material adverse effect on the business, financial condition or results of operations of the Corporation.

The Corporation is reliant on key inputs to manufacture its products, and changes in the availability or pricing of such key inputs could adversely affect the Corporation's operations

The Corporation's cannabis business is dependent on a number of key inputs, including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. 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, results of operations or prospects of the Corporation. For instance, COVID-19 may adversely impact the Corporation's supply chain for key inputs. Some of these inputs may be available from only a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Corporation might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Corporation in the future. Any inability to secure required supplies and services or to do so on reasonable terms could have a material adverse effect on the business, financial condition, results of operations or prospects of the Corporation.

The Corporation may not be able to adequately protect its intellectual property

The Corporation may have certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patents and proprietary processes. The Corporation 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. The Corporation 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 the Corporation to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Corporation's intangible property, technology or processes. It is likely that other companies can duplicate a production process similar to the Corporation's. Other companies may also be able to materially duplicate the Corporation's proprietary products. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Corporation may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

The Corporation'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 the Corporation's names and logos. If the Corporation'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 the Corporation's business and might prevent its brands from achieving or maintaining market acceptance.

The Corporation 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 the Corporation to incur significant penalties and costs.

Intellectual property claims

Companies in the retail and wholesale industries frequently own trademarks and trade secrets and often enter into litigation based on allegations of infringement or other violations of intangible property rights. The Corporation 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's

resources and attention. An adverse determination also could prevent the Corporation from offering its products to others and may require that the Corporation procure substitute products or services.

With respect to any intangible property rights claim, the Corporation may have to pay damages or stop using intangible property found to be in violation of a third party's rights. The Corporation 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, the Corporation may also be required to pursue alternative options, which could require significant effort and expense. If the Corporation 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 the Corporation's brand and prevent it from generating sufficient revenue or achieving profitability.

The Corporation's insurance coverage may not sufficiently cover claims against the Corporation

Although the Corporation maintains insurance to protect against certain risks in amounts that it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Corporation 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 Corporation's operations are not generally available on acceptable terms. The Corporation might also become subject to liability for pollution or other hazards which may not be insured against or which the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its business, results of operations, financial condition or prospects.

Competitive product risks

The market is characterized by a growing number of new market entrants competing in the same product categories as the Corporation. As such there is considerable competition in the market place.

Additionally, there is potential that the industry will undergo consolidation, creating larger companies that may have increased geographic scope and other economies of scale. Increased competition by larger, better-financed competitors with geographic or other structural advantages could materially and adversely affect the Corporation's business, financial condition and results of operations.

To remain competitive, the Corporation will require a continued level of investment in research and development, marketing, sales and client support. The Corporation may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Corporation.

To succeed in the marketplace the Corporation needs to differentiate itself which it has done via innovative design and technology.

Brand perception

The Corporation believes its industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of its products and perceptions of regulatory compliance. Consumer perception of the

Corporation's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Corporation's products and the business, results of operations, financial condition and cash flows of the Corporation. In particular, vaporizers, electronic cigarettes and related products have only recently been developed and the long-term effects have yet to be examined. Currently, there is no way of knowing whether these products are safe for their intended use. If the scientific community were to determine conclusively that use of any or all of these products pose long-term health risks, market demand for these products and their use could materially decline.

The Corporation's dependence upon consumer perceptions 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 the Corporation, the demand for products, and the business, results of operations, financial condition and cash flows of the Corporation. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis-related products in general, or the Corporation's products specifically, or associating the consumption of cannabis-related products with illness or other negative effects or events, could have such a material adverse effect.

Ongoing controversy surrounding vaporizers and vaporizer products may materially and adversely affect the market for vaporizer products and expose the Company to litigation and additional regulation

There have been a number of highly publicized cases involving lung and other illnesses and deaths that appear to be related to vaporizer devices and/or products used in such devices (such as vaporizer liquids). The focus is currently on the vaporizer devices, the manner in which the devices were used and the related vaporizer device products - THC, nicotine, other substances in vaporizer liquids, possibly adulterated products and other illegal unlicensed cannabis vaporizer products. Some states and cities in the United States have already taken steps to prohibit the sale or distribution of vaporizers, restrict the sale and distribution of such products, impose restrictions on flavours or use of such vaporizers, and implement targeted tax structures. This trend may continue, accelerate and expand. This controversy could well extend to non-nicotine vaporizer devices and other product formats. Any such extension could materially and adversely affect the Company's business, financial condition, operating results, liquidity, cash flow and operational performance. Litigation pertaining to vaporizer products is accelerating and that litigation could potentially expand to include the Company's products, which would materially and adversely affect the Company's business, financial condition, operating results, liquidity, cash flow and operational performance.

The Corporation's directors may have a conflict of interest due to their involvement in other businesses

Certain of the Corporation's directors are involved with other business ventures that may be competitive with the Corporation's business. Situations may arise where the personal interests of these directors conflict with or diverge from the Corporation's interests. In accordance with applicable corporate law, directors who have a material interest in or who are parties to a material contract or a proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve such contracts. In addition, directors are required to act honestly with a view to the Corporation's best interests. However, in conflict of interest situations, the Corporation's directors may owe the same duty to another company and will need to balance their competing interests

with their duties to the Corporation. Circumstances (including future corporate opportunities) may arise that may be resolved in a manner that is unfavorable to the Corporation.

The Corporation faces risks associated with potential acquisitions

As part of the Corporation's overall business strategy, the Corporation intends to pursue select strategic acquisitions, which would provide additional product offerings, vertical integrations, additional industry expertise and a stronger industry presence in both existing and new jurisdictions. The success of any such acquisitions will depend, in part, on the ability of the Corporation to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Corporation. Future acquisitions may expose the Corporation to potential risks, including risks associated with: (i) the integration of new operations, services and personnel, (ii) unforeseen or hidden liabilities, (iii) the diversion of resources from the Corporation's existing business and technology, (iv) potential inability to generate sufficient revenue to offset new costs, (v) the expense of acquisitions, and (vi) the potential loss of or harm to relationships with both employees and existing customers resulting from its integration of new businesses. In addition, any proposed or ongoing acquisitions will be subject to the satisfaction of certain closing conditions, including any necessary regulatory approvals. There can be no assurance that such closing conditions will be satisfied or that such ongoing or proposed acquisitions will be completed.

While the Corporation intends to conduct reasonable due diligence in connection with such strategic acquisitions, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Corporation is not sufficiently indemnified. Any such unknown or undisclosed risks of liability could materially and adversely affect the Corporation's financial performance and result of operations. The Corporation could encounter additional transaction and integration related costs or other factors such as failure to realize all of the benefits from the acquisition. All of these factors could cause dilution to the Corporation's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Common Shares.

The Corporation may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of any such strategic acquisition with its existing operations. If integration is not managed successfully by the Corporation's management, the Corporation 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 the Corporation's business, financial condition and results of operations.

The Corporation faces risks associated with legal, regulatory or political change

The success of the business strategy of the Corporation depends on the legality of the cannabis industry. The political environment surrounding the cannabis industry in general can be volatile and the regulatory framework remains in flux. To the Corporation's knowledge, there are to date a total of 47 states, and the District of Columbia, Puerto Rico, the U.S. Virgin Islands, the Northern Mariana Islands and Guam, that have legalized cannabis in some form, including California, Nevada and Oregon, and additional states have pending legislation regarding the same; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Corporation's business, results of operations, financial condition or prospects.

Delays in enactment of new state or federal regulations could restrict the ability of the Corporation to reach strategic growth targets and lower return on investor capital. The strategic growth strategy of the

Corporation is reliant upon certain federal and state regulations being enacted to facilitate the legalization of medical and adult-use cannabis. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Corporation, and thus, the effect on the return of investor capital, could be detrimental. The Corporation is unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

Further, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Corporation's business, results of operations, financial condition and prospects would be materially adversely affected. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of cannabis in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the cannabis industry. Federal actions against individuals or entities engaged in the cannabis industry or a repeal of applicable cannabis related legislation could adversely affect the Corporation and its business, results of operations, financial condition and prospects.

The commercial medical and adult-use cannabis industry is in its infancy and the Corporation anticipates that such regulations will be subject to change as the jurisdictions in which the Corporation does business matures. Overall, the medical and adult-use cannabis industry is subject to significant regulatory change at both the state and federal level. The inability of the Corporation to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

The Corporation faces risks related to co-investment

The Corporation may co-invest in one or more investments with certain strategic investors and/or other third parties through joint ventures or other entities, which parties in certain cases may have different interests or superior rights to those of the Corporation, although it is the general intent of the Corporation to retain superior rights associated with its investments. Although it is the Corporation's intent to retain control and other superior rights over the Corporation's investments, under certain circumstances it may be possible that the Corporation relinquishes such rights over certain of its investments and, therefore, may have a limited ability to protect its position therein. In addition, even when the Corporation does maintain a control position with respect to its investments, the Corporation's investments may be subject to typical risks associated with third-party involvement, including the possibility that a third-party may have financial difficulties resulting in a negative impact on such investment, may have economic or business interests or goals that are inconsistent with those of the Corporation, or may be in a position to take (or block) action in a manner contrary to the Corporation's objectives. The Corporation may also, in certain circumstances, be liable for the actions of its third-party partners or co-investors. Co-investments by third parties may or may not be on substantially the same terms and conditions as the Corporation, and such different terms may be disadvantageous to the Corporation.

The Corporation faces difficulty in forecasting sales

The Corporation must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the industry. 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, financial condition or prospects of the Corporation.

Reliable data on the medical and adult-use cannabis industry is not available

As a result of recent and ongoing regulatory and policy changes in the medical and adult-use cannabis industry, the market data available is limited and unreliable. Federal and state laws prevent widespread participation and hinder market research. Therefore, market research and projections by the Corporation of estimated total retail sales, demographics, demand, and similar consumer research, are based on assumptions from limited and unreliable market data, and generally represent the personal opinions of the Corporation's management team as of the date of this MD&A.

The Corporation faces constraints on marketing products

The development of the Corporation's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the U.S. limits companies' abilities to compete for market share in a manner similar to other industries. If the Corporation is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Corporation's sales and results of operations could be adversely affected.

The Corporation may be exposed to fraudulent or illegal activity by its employees, contractors and consultants

The Corporation 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 the Corporation that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It may not always be possible for the Corporation to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Corporation to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Corporation 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 the Corporation, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Corporation's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Corporation's operations, any of which could have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

The Corporation's information technology systems may be subject to cyber-attacks

The Corporation's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Corporation'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 the Corporation's reputation and results of operations.

The Corporation has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Corporation will not incur such losses in the future. The Corporation'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, the Corporation may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

The Corporation faces a risk of security breaches

Given the nature of the Corporation's product and its lack of legal availability outside of channels approved by the government of the U.S., as well as the concentration of inventory in its facilities, despite meeting or exceeding all legislative security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Corporation's facilities could expose the Corporation to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches, and may deter potential customers from choosing the Corporation's products.

In addition, the Corporation collects and stores personal information about its customers and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly customer lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation may face high fees associated with bonding and insurance coverage

There is a risk that a greater number of state regulatory agencies will begin requiring entities engaged in certain aspects of the cannabis industry to post a bond or significant fees when applying for example for a dispensary license or renewal as a guarantee of payment of sales and franchise tax. The Corporation is not able to quantify at this time the potential scope for such bonds or fees in the states in which it currently or may in the future operate. Any bonds or fees of material amounts could have a negative impact on the ultimate success of the Corporation's business.

The economic environment may negatively impact the Corporation's operations

The Corporation's operations could be affected by the economic context should unemployment, interest rates or inflation reach levels that influence consumer trends and consequently, impact the Corporation's sales and profitability. Specifically, the global economy is facing a period of economic uncertainty as a result of the potential impact of COVID-19 and the Corporation cannot reasonably predict the impact the pandemic may have on sales and profitability.

Management of growth may present issues for the Corporation

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

The Corporation is faced with increased costs as a result of being a public company

As a public issuer, the Corporation is subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Corporation's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Corporation's legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business and financial condition.

Certain remedies available to the Corporation may be limited

The Corporation's governing documents may provide that the liability of the Board and its officers is eliminated to the fullest extent permitted under the laws of Canada. Thus, the Corporation and the shareholders of the Corporation may be prevented from recovering damages for alleged errors or omissions made by the members of the Board and its officers. The Corporation's governing documents may also provide that the Corporation will, to the fullest extent permitted by law, indemnify members of the Board and its officers for certain liabilities incurred by them by virtue of their acts on behalf of the Corporation.

The Corporation may face difficulty in enforcing judgments and effecting service of process on directors and officers

Some of the directors and officers of the Corporation reside outside of Canada. Some or all of the assets of such persons may be located outside of Canada. Therefore, it may not be possible for the Corporation's shareholders to collect or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against such persons. Moreover, it may not be possible for the Corporation's shareholders to effect service of process within Canada upon such persons.

The location of the Corporation's assets may make it difficult to enforce judgments

Substantially all of the Corporation's assets are located outside of Canada, and therefore investors may have difficulty collecting from the Corporation any judgments obtained in Canadian courts and predicated on the civil liability provisions of applicable securities legislation. Furthermore, the Corporation may be subject to legal proceedings and judgments in foreign jurisdictions.

The Corporation's past performance is not indicative of future results

The prior investment and operational performance of the Corporation is not indicative of the future operating results of the Corporation. There can be no assurance that the historical operating results achieved by Corporation or its affiliates will be achieved by the Corporation, and the Corporation's future performance may be materially different.

The Corporation's financial projections may prove materially inaccurate or incorrect

Any of the Corporation's financial estimates, projections and other forward-looking information or statements included in this MD&A were prepared by the Corporation without the benefit of reliable historical industry information or other information customarily used in preparing such estimates, projections and other forward-looking information or statements. Such forward-looking information or statements are based on assumptions of future events that may or may not occur, which assumptions may not be disclosed in this MD&A. A reader should inquire of the Corporation and become familiar with the assumptions underlying any estimates, projections or other forward-looking information or statements. Projections are inherently subject to varying degrees of uncertainty and their achievability depends on the timing and probability of a complex series of future events. There is no assurance that the assumptions upon which these projections are based will be realized. Actual results may differ materially from projected results for a number of reasons including increases in operational expenses, changes or shifts in regulatory rules, undiscovered and unanticipated adverse industry and economic conditions, the occurrence of unforeseen or catastrophic events, including but not limited to the emergence of a public health crisis, such as COVID-19, and unanticipated competition. Accordingly, a reader should not rely on any projections to indicate the actual results the Corporation might achieve.

The Corporation faces risks associated with market price volatility

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Corporation, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Corporation, general economic conditions, including volatile economic conditions in response to COVID-19, recent inflationary pressures and/or the collapse of certain financial institutions, legislative changes, and other events and factors outside of the Corporation's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

Existing shareholders may sell a substantial number of Common Shares of the Corporation

Sales of a substantial number of Common Shares in the public market could occur at any time by existing holders of Common Shares. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of the Common Shares. If this occurs and continues, it could impair the Corporation's ability to raise additional capital through the sale of securities.

The Corporation does not anticipate paying any dividends

The Corporation has no earnings or dividend record and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Corporation would be subject to tax and, potentially, withholdings.

The Corporation could be adversely affected by natural disasters, public health crises, political crises, negative global climate patterns, or other catastrophic events

Natural disasters, such as hurricanes, tornadoes, floods, earthquakes, and other adverse weather conditions; unforeseen public health crises, such as pandemics and epidemics; political crises, such as terrorist attacks, war, labor unrest, and other political instability; negative global climate patterns; or other

catastrophic events, such as fires or other disasters occurring at the Corporation's facilities or the Corporation's suppliers' facilities could disrupt the Corporation's operations. In particular, these types of events could impact the Corporation's supply chain from or to the impacted region and could impact the Corporation's ability to operate its business. Furthermore, these types of events could negatively impact consumer spending in the impacted regions or, depending upon the severity, globally. To the extent any of these events occur, it could have a material adverse impact on the business of the Corporation, its financial condition and results from operations.

The Corporation is exposed to currency fluctuations

Due to the Corporation's present operations in the U.S., and its intentions to continue operating outside Canada, the Corporation is exposed to currency fluctuations. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Corporation's business, financial condition and operating results and prospects.

Global financial conditions expose the Corporation to significant risks

Following the onset of the credit crisis in 2008, global financial conditions were characterized by extreme volatility and several major financial institutions either went into bankruptcy or were rescued by governmental authorities. While global financial conditions subsequently stabilized, there remains considerable risk in the system given the extraordinary measures adopted by government authorities to achieve that stability.

Moreover, the occurrence of unforeseen or catastrophic events, including but not limited to the emergence of a pandemic, such as COVID-19, other widespread health emergencies, or responses to inflationary pressures could result in economic and financial disruptions akin to those witnessed during the global financial crisis of 2008. Such risks are of increased importance in the current climate, as inflationary pressures have led to a rapid rise in short-term interest rates, which have resulted in increased pressure on the global banking system. As a result, more depositors have been pulling funds from the banking system, which has led to the collapse of Silicon Valley Bank, Signature Bank, and forced the sale of Credit Suisse, which has shed light on other US regional banks reporting potential troubles.

Global financial conditions could continue to destabilize in response to the current economic environment or future economic shocks, as government authorities may have limited resources to respond to future crises. Current or future economic shocks may be precipitated by a number of causes, including a rise in the price of oil, geopolitical instability and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Corporation's ability to obtain equity or debt financing in the future on terms favourable to the Corporation. Additionally, any such occurrence could cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. Further, in such an event, the Corporation's operations and financial condition could be adversely impacted.

Furthermore, general market, political and economic conditions, including, for example, inflation, interest and currency exchange rates, structural changes in the cannabis industry, supply and demand for commodities, political developments, legislative or regulatory changes, social or labour unrest and stock market trends will affect the Corporation's operating environment and its operating costs, profit margins and share price. Any negative events in the global economy could have a material adverse effect on the Corporation's business, financial condition, and results of operations or prospects. Given the uncertainty around the current economic environment, the Corporation cannot reasonably estimate the impact to the Corporation's financial condition or results of operations or prospects.

Accounting Policies

Each of the below policies are detailed in the Company's consolidated financial statements. Management has discussed the development, selection and disclosure of critical accounting policies and estimates with the Audit Committee of the Board.

- Financial instruments & other instruments
- Share-based payments
- Business combinations, goodwill and intangible assets
- Impairment of non-financial assets
- Biological assets
- Inversion
- IRC Section 280E

Financial instruments & other instruments

a) Financial assets

i) Recognition and initial measurement

The Company recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

ii) Classification and subsequent measurement

On initial recognition, financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Company determines the classification of its financial assets, together with any embedded derivatives, based on the business model for managing the financial assets and their contractual cash flow characteristics.

Financial assets are classified as follows:

- Amortized cost - assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest are measured at amortized cost. Interest revenue is calculated using the effective interest method and gains or losses arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost are comprised of accounts and other receivables, due from related parties and notes receivable.
- Fair value through other comprehensive income - assets that are held for collection of contractual cash flows and for selling the financial assets, and for which the contractual cash flows are solely payments of principal and interest, are measured at fair value through other comprehensive

income. Interest income calculated using the effective interest method and gains or losses arising from impairment and foreign exchange are recognized in profit or loss. All other changes in the carrying amount of the financial assets are recognized in other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. The Company does not hold any financial assets measured at fair value through other comprehensive income.

- Mandatorily at fair value through profit or loss - assets that do not meet the criteria to be measured at amortized cost, or fair value through other comprehensive income, are measured at fair value through profit or loss. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. Financial assets mandatorily measured at fair value through profit or loss are comprised of cash, restricted cash and investments.
- Designated at fair value through profit or loss – on initial recognition, the Company may irrevocably designate a financial asset to be measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities, or recognizing the gains and losses on them, on different bases. All interest income and changes in the financial assets' carrying amount are recognized in profit or loss. The Company does not hold any financial assets designated to be measured at fair value through profit or loss.

Business model assessment

The Company assesses the objective of its business model for holding a financial asset at a level of aggregation which best reflects the way the business is managed, and information is provided to management. Information considered in this assessment includes stated policies and objectives.

Contractual cash flow assessment

The cash flows of financial assets are assessed as to whether they are solely payments of principal and interest on the basis of their contractual terms. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding, and other basic lending risks and costs. In performing this assessment, the Company considers factors that would alter the timing and amount of cash flows such as prepayment and extension features, terms that might limit the Company's claim to cash flows, and any features that modify consideration for the time value of money.

iii) Impairment

The Company recognizes a loss allowance for the expected credit losses associated with its financial assets, other than financial assets measured at fair value through profit or loss. Expected credit losses are measured to reflect a probability-weighted amount, the time value of money, and reasonable and supportable information regarding past events, current conditions and forecasts of future economic conditions.

The Company applies the simplified approach for trade receivables. Using the simplified approach, the Company records a loss allowance equal to the expected credit losses resulting from all possible default events over the assets' contractual lifetime.

The Company assesses whether there has been a significant increase in credit risk since initial

recognition or a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through borrowing patterns or observed balances in other accounts and breaches of borrowing contracts such as default events or breaches of borrowing covenants.

For financial assets with significant increase in credit risk since initial recognition and financial assets assessed as credit-impaired at the reporting date, the Company continues to recognize a loss allowance equal to lifetime expected credit losses. For financial assets measured at amortized cost, loss allowances for expected credit losses are presented in the statement of financial position as a deduction from the gross carrying amount of the financial asset.

Financial assets are written off when the Company has no reasonable expectations of recovering all or any portion thereof.

iv) Derecognition of financial assets

The Company derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

b) Financial liabilities

i) Recognition and initial measurement

The Company recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the Company measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Where an instrument contains both a liability and equity component, these components are recognized separately based on the substance of the instrument, with the liability component measured initially at fair value and the equity component assigned the residual amount.

ii) Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest, gains and losses relating to a financial liability are recognized in profit or loss.

iii) Derecognition of financial liabilities

The Company derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Share-based payments

The Company operates equity settled share-based remuneration plans for its eligible directors, officers, employees and consultants. All goods and services received in exchange for the grant of any share-based

payments are measured at their fair value unless the fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods and services received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For transactions with employees and others providing similar services, the Company measures the fair value of the services by reference to the fair value of the equity instruments granted.

Equity settled share-based payments under share-based payments plans are ultimately recognized as an expense in profit or loss with a corresponding credit to reserve for share-based payments, in equity.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from the previous estimate. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting.

Business combinations, goodwill and intangible assets

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. Acquisition related transaction costs are expensed as incurred. Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair value at the date of acquisition. When the Company acquires control of a business, any previously held equity interest is also re-measured to fair value. The excess of the purchase consideration and any previously held equity interest over the fair value of identifiable net assets acquired is goodwill. If the fair value of identifiable net assets acquired exceeds the purchase consideration and any previously held equity interest, the difference is recognized in the consolidated statements of loss and comprehensive loss immediately as a gain or loss on acquisition.

Amortization of intangible assets is measured on a straight-line basis over the following periods:

Proprietary technology & know how	5 years
Brands	5 to 10 years
Distributor and customer relationships	5 to 8 years
Licenses	10 years
Software	5 to 10 years

The estimated useful lives, residual values and amortization methods are reviewed at each year end and any changes in estimates are accounted for prospectively.

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or its CGU exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a

pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the results of operations of the related period. The Company does not recognize the mother plants used for cloning the cannabis plants on the consolidated statement of financial position, since such plants are under the scope of IAS 16 – Property, Plant and Equipment, but have a useful life of less than one year.

The Company's biological assets are within the scope of IAS 41 Agriculture, and the direct and indirect costs of biological assets include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred, and they are all subsequently recorded within the line item 'cost of goods sold' on the consolidated statement of loss and comprehensive loss in the period that the related product is sold. Unrealized fair value gains on growth of biological assets are recorded in a separate line on the face of the consolidated statement of loss and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the consolidated statement of financial position.

Inversion

The Company will be treated as a U.S corporation for U.S. federal income tax purposes under U.S. Internal Revenue Code ("IRC") Section 7874 and be subject to U.S. federal income tax. However, for Canadian tax purposes, the Company is expected, regardless of any application of IRC Section 7874, to be treated as a Canadian resident company (as defined in the Income Tax Act (Canada)) for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the U.S. Notwithstanding the foregoing, it is management's expectation that the Company's activities will be conducted in such a manner that income from operations will not be subjected to double taxation.

IRC Section 280E

As the Company operates in the cannabis industry and taking into account the potential impact of ongoing US tax cases that interpret the application of IRC Section 280E, the Company is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E.

Subsequent Events

The Company performed a review of events subsequent to the balance sheet date through the date the consolidated financial statements were issued:

On January 25, 2023, the Company paid the remaining US\$250,000 (CAD - \$339,238) in deferred cash consideration related to the acquisition of High Fidelity, Inc.

On February 13, 2023, the Company issued an aggregate of 100,167,654 restricted voting shares in capital of the Company to the former shareholders of High Fidelity, Inc., as post-closing additional consideration in connection with the Vermont regulators issuing a retail marijuana license to the Company on September 28, 2022.

In February 2023, the Company paid \$755,399 in performance bonuses related to 2022 to various employees of the Company.

Other MD&A Requirements

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company.

Additional information related to the Company can be found on SEDAR at www.sedar.com.