



SLANG
WORLDWIDE

**SLANG WORLDWIDE INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2024**

DATED AUGUST 26, 2024

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**") unaudited interim condensed consolidated financial statements and notes for the three and six months ended June 30, 2024 and 2023 (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 August 26, 2024, 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 of Directors (the "**Board**") on August 26, 2024.

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;
- outlooks regarding future financial position, sales 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. Key Financial Metrics — 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. Key Financial Metrics

During the three months ended June 30, 2024:

- Revenue for the three months ended June 30, 2024 (“**Q2 2024**”) was \$6.28 million, compared with \$8.44 million for the three months ended June 30, 2023 (“**Q2 2023**”), representing a 26% decrease year-over-year. The reduction was primarily driven by a decrease of \$1.78 million in Core Market (as defined herein) sales, a decrease of \$0.20 million in Emerging Market (as defined herein) sales, a decrease of \$0.09 million in E-commerce (as defined herein) sales, and a decrease of \$0.09 million in our Distribution (as defined herein) sales. Within the Core Market segment, the Company experienced a reduction of \$0.51 million and \$1.27 million in sales in Colorado and in Vermont, respectively.
- Gross profit of \$2.69 million (43% gross margin) in Q2 2024, compared with \$4.35 million (52% gross margin) in Q2 2023, representing a 38% decrease in gross profit and a 9% decrease in gross margin year-over-year. Gross profit before fair value of biological assets was \$3.23 million (51% gross margin) in Q2 2024, compared with \$4.54 million (54% gross margin) in Q2 2023, representing a 29% decrease in gross profit before fair value of biological assets, and a 3% decrease in gross margin before fair value of biological assets year-over-year.

- Operating expenses of \$5.47 million in Q2 2024, compared with \$6.24 million in Q2 2023 and \$5.54 million in the three months ended March 31, 2024 (“**Q1 2024**”), representing a 12% decrease year-over-year and 1% decrease quarter-over-quarter. The reduction year-over-year was primarily driven by a decrease in salaries and wages, consulting and subcontractors, general and administrative, and share-based payments offset by an increase in depreciation and amortization expenses. The reduction quarter-over-quarter was primarily driven by a decrease in salaries and wages and share-based payments, offset by an increase in insurance expenses.
- Total comprehensive loss of \$11.50 million in Q2 2024, compared with \$5.16 million in Q2 2023, representing a 123% increase year-over-year. The increase was primarily driven by an increase in impairment of \$4.30 million, a decrease in gross profit of \$1.66 million, an increase in financing cost and fair value adjustment of \$1.62 million and an increase in other expenses of \$0.43 million, offset by a decrease in operating expenses of \$0.77 million and a decrease in income tax of \$0.27 million.
- EBITDA¹ of (\$2.07 million) in Q2 2024, compared with (\$1.17 million) in Q2 2023. The reduction in EBITDA is primarily attributable to a \$1.72 million decrease in gross profit (excluding depreciation costs), offset by a reduction of \$0.82 million in operating expenses (excluding depreciation) such as salaries and wages, consulting and subcontractors, general and administrative and share based payments.
- Adjusted EBITDA¹ of (\$1.42 million) in Q2 2024, compared with (\$0.76 million) in Q2 2023. The reduction in Adjusted EBITDA is primarily attributable to a decrease of \$1.36 million in gross profit before fair value adjustments of biological assets (excluding depreciation costs), offset by a reduction of \$0.70 million in operating expenses (excluding depreciation expenses, expected credit losses and share based payments).
- \$6.75 million in cash and restricted cash on June 30, 2024, compared to \$8.32 million on March 31, 2024 and \$9.04 million on December 31, 2023. Additionally, for the six months ended June 30, 2024, cash flows used in operating activities was (\$1.46 million), compared to cash flows used in operating activities of (\$0.49 million) for the six months ended June 30, 2023, a reduction of \$0.97 million. This reduction was primarily attributable to decreased revenue and gross profit, offset by a reduction of expenditures and an improvement associated with non-cash working capital balances.

2. Our Business

SLANG is a cannabis consumer packaged goods company with a portfolio of renowned brands. The Corporation currently owns, licenses, and/or markets five brands, O.pen, Ceres, Alchemy Naturals, Firefly, and Green House Seed Company, in 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 nine States
3. THC Free – Distribution & E-commerce

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

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

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 two of Vermont's four existing medical marijuana licenses and one retail marijuana license.

Core Market Objectives

Colorado

The Colorado market is facing heightened competition due to its maturity, which has required the Company to focus on maintaining gross profit margin over pursuing sustained sales growth. The Company continues to employ targeted initiatives in Colorado in an effort to sustain sales and maintain gross profit margin. These initiatives include strengthening existing partnerships with key dispensaries to maintain our customer base and market share, realigning our retail product pricing strategy, and implementing tailored promotional campaigns in the forthcoming quarters to drive unit sales velocity per store with key dispensaries. Our inside and outside sales teams provide support with expanding existing relationships and leveraging the Company's distribution footprint. The Company will also continue to focus on reducing expenses to maximize Core Market profitability during this period of heightened competition in Colorado.

Vermont

The addition of Vermont as a Core Market in August 2021 resulted in direct-to-consumer sales through the Company's medical retail locations. In addition, 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 brought the opportunity to increase SLANG's product offering in the state, increasing brand penetration. Over the past year, the retail landscape in Vermont has evolved, with approximately 78² approved retail licenses in Vermont, intensifying competition and resulting in retail revenue declines. These retail headwinds have negatively impacted sales in Vermont. The Company is actively trying to mitigate the declines in retail sales by expanding its wholesale product offerings to other retailers and white labelling products for third parties. Vermont wholesale sales were \$0.38 million in Q2 2024, compared to \$0.31 million in Q1 2024.

Emerging Markets

Emerging Markets ("**Emerging Markets**") are those that SLANG views as markets with regulatory or commercial environments in which it is cost prohibitive in the near term for the Company to enter.

Emerging Markets today include Florida, Maine, New Mexico, Pennsylvania, Washington, West Virginia, Maryland, Puerto Rico and Arizona. 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.

² Source: Cannabis Control Board (State of Vermont). [Licensed Cannabis Products, Establishments & Employees | Cannabis Control Board \(vermont.gov\)](https://www.vermont.gov/cannabis-control-board/licensed-cannabis-products-establishments-employees)

Emerging Market Objectives

The Company is in the process of evaluating all of its Emerging Market partnerships, which may result in the termination of any partnerships that do not contribute profitable sales to the Company's Emerging Market channel.

THC Free

SLANG's THC Free focus is on all products which do not include delta-9 THC and can therefore be broadly distributed. This includes our dry herb vaporizer, the Firefly 2+, our line of Alchemy Naturals CBD gummies, as well as batteries and various other product components including packaging and hardware. Additionally, on October 2, 2023, the Company launched sales of its O.pen Sesh, an electric device compatible with 510-thread cartridges and concentrates.

Strategies 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 e-commerce platforms include our [O.pen](#), [Firefly](#), and [Alchemy Naturals CBD](#) products.

THC Free Objectives

Distribution

The Company continues to focus on distributor relationships, which provide an avenue for widespread distribution of SLANG branded hardware and CBD products such as the Firefly 2+, O.pen batteries, O.pen Sesh, and Alchemy Naturals CBD gummies. Our current distribution partners assist in distributing the above products throughout the United States and our Firefly 2+ into Europe. In addition, during Q2 2024, the Company signed agreements to list its O.pen, Firefly, and Alchemy Naturals products on SmokeDrop³, an industry-leading dropship marketplace for headshop products, and [Headshop.com](#), an online headshop which connects brands with consumers. Sales from these two online marketplaces are expected in Q3 2024.

E-commerce

Direct to consumer sales through e-commerce 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 (i.e. website design), e-commerce subscriptions and new products, such as the O.pen Sesh. During Q2 2024 and continuing into Q3 2024, both the O.pen and Firefly e-commerce platforms are experiencing a reduction in site traffic due to Google algorithm updates, resulting in a drop in organic search results. The Company is addressing this site traffic reduction through both technical and strategic search engine optimization ("SEO"). Furthermore, the Company expects Firefly sales to continue to decline as the product has required an MSRP reduction to stay competitive, and is experiencing reduced unit demand. The Company's Alchemy Naturals CBD gummies continue to see growth as Alchemy Naturals contributed \$0.83 million in e-commerce sales in the six months ended June 30, 2024, compared to \$0.58 million in the six months ended June 30, 2023.

³ <https://thesmokedrop.com>

3. Results and Outlook

Overview

Below is selected financial information for each of the eight most recent quarters of operations. Certain results may differ from those initially reported. The figures reported for the quarter ended September 30, 2022 have been updated for the presentation of the acquisition of NS Holdings, Inc. (“NSH”) which was updated by offsetting \$10.72 million between expected credit losses and expenses related to acquisition with no impact on the total loss and comprehensive loss. The figures reported for the quarters ended June 30, 2023, and September 30, 2023, have been updated for the presentation of the employee retention tax credit and the related interest income. Results were updated by adjusting \$1.66 million from other expense (income) for quarter ended June 30, 2023, and \$0.09 million from interest and other income for quarter ended September 30, 2023, to accounts payable and accrued liabilities. Including the effects of currency translation, total comprehensive loss increased by \$1.63 million in the three months ended June 30, 2023 (“Q2 2023”) and decreased by \$0.10 million in the three months ended September 30, 2023 (“Q3 2023”).

On September 28, 2022, the 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 provided a positive impact on revenue and gross profit in the three months ended December 31, 2022 and throughout the majority of 2023. Although retail revenue in Vermont continues to provide meaningful revenue and gross margin, the competition in Vermont has accelerated in 2024, resulting in continued pressure on revenue and gross margin.

Headwinds from market competition in 2024 were not unique to Vermont and the Company is also experiencing increased competition in Colorado. The Company is working on several strategies in both markets in order to generate additional revenue, which include growing Vermont wholesale sales, making new partnerships with key dispensaries to broaden our customer base and increase market share, realigning our retail product pricing strategy, and implementing tailored promotional campaigns in the forthcoming quarters to drive unit sales velocity per store.

As at June 30, 2024, the Company had a working capital deficit of \$24,060,782 and the Company is generating negative cash flows from operating activities during the six months ended June 30, 2024 of \$1,463,948 and incurred a comprehensive loss of \$17,518,257. In addition, the Company’s convertible notes mature on November 15, 2024, and January 31, 2025 (see *Liquidity and Capital Resources and Note 20 of the Financial Statements*), and a significant note payable matures on June 30, 2025 (refer to *Note 18 of the Financial Statements*). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

The Company’s ability to continue as a going concern is contingent upon management’s plan over the next twelve months to improve the Company’s liquidity and profitability, which includes, without limitation:

- Seeking additional capital through the issuance of debt or equity securities
- Refinancing existing debt at acceptable terms to the Company
- Increasing revenue by introducing new products and acquiring new customers
- Further reducing operating expenses by taking additional restructuring actions to align costs with revenue to achieve profitability
- Any other strategic alternative including a potential business combination, sale, divestiture, acquisition, or merger involving our business assets in order to improve the Company’s operations and cash position.

In view of the matters detailed above, continuation as a going concern is dependent upon the continued operations of the Company, which in turn is dependent upon the Company's ability to refinance its financial requirements and to raise additional capital, and the success of its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern. Such adjustments could be material.

The Company's management cannot provide assurances that the Company will be successful in accomplishing any of its proposed financing plans and as such may have insufficient cash to fund planned operations through the 2024 fiscal year. Management also cannot provide any assurance as to unforeseen circumstances that could occur within the next 12 months or, if the Company raises capital, thereafter, which could increase the Company's need to raise additional capital on an immediate basis, which capital may not be available to the Company. The conditions described above raise substantial doubt with respect to our ability to meet our obligations for at least one year from the issuance of the Financial Statements, and therefore, to continue as a going concern.

Results

Selective Financial Results

Summary information for the eight most recently completed quarters:

(In thousands of Canadian dollars except per share data)	Three-Months Ended							
	30-Jun-24	31-Mar-24	31-Dec-23	30-Sep-23	30-Jun-23	31-Mar-23	31-Dec-22	30-Sep-22
Net Operating Revenue from Continuing Operations	6,282	7,029	7,419	9,004	8,436	10,823	11,777	8,170
Operating Loss from Continuing Operations	(2,783)	(2,180)	(2,836)	(1,197)	(1,889)	(63)	(3,472)	(4,989)
Total Comprehensive Loss	(11,496)	(6,022)	(7,494)	(4,595)	(5,164)	(2,330)	(16,955)	(4,641)
EBITDA (Non-IFRS)	(2,065)	(1,481)	(2,087)	(475)	(1,168)	679	(1,822)	(3,432)
Adjusted EBITDA (Non-IFRS)	(1,422)	(1,063)	(1,478)	(403)	(762)	742	(56)	(1,240)
Total Assets	22,816	30,753	33,203	39,637	40,180	41,371	42,755	64,611
Total Liabilities	44,552	41,032	37,583	36,370	32,436	28,633	30,278	35,900
Shareholders' Equity (Deficit)	(21,736)	(10,279)	(4,380)	3,267	7,744	12,738	12,477	28,711
Earnings Per Share from Continuing Operations								
Basic	(0.05)	(0.03)	(0.05)	(0.03)	(0.02)	(0.02)	(0.15)	(0.06)
Diluted	(0.05)	(0.03)	(0.05)	(0.03)	(0.02)	(0.02)	(0.15)	(0.06)

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

(In thousands of Canadian dollars except per share data and percentages)	For the three months ended		For the six months ended	
	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23
Net Operating Revenue	6,282	8,436	13,311	19,259
Cost of goods sold	3,050	3,900	6,429	9,041
Gross Profit Before Fair Value Adjustment of Biological Assets	3,232	4,536	6,882	10,218
Realized fair value amounts included in inventory sold	(659)	(609)	(1,239)	(1,032)
Unrealized gain on changes in fair value of biological assets	113	419	405	876
Gross Profit	2,686	4,346	6,048	10,062
Gross Profit Margin	43%	52%	45%	52%
Operating expenses	5,469	6,235	11,011	12,015
Operating Loss	(2,783)	(1,889)	(4,963)	(1,953)
Financing cost and fair value adjustment	4,289	2,667	7,870	4,470
Impairment	4,297	-	4,297	-
Other expense (income)	33	(401)	262	(475)
Loss Before Income Taxes	(11,402)	(4,155)	(17,392)	(5,948)
Income taxes	158	428	306	967
Net Loss	(11,560)	(4,583)	(17,698)	(6,915)
Exchange on translation of foreign operations	64	(581)	180	(580)
Total Comprehensive Loss	(11,496)	(5,164)	(17,518)	(7,495)
Earnings Per Share				
Basic	(0.05)	(0.02)	(0.08)	(0.04)
Diluted	(0.05)	(0.02)	(0.08)	(0.04)
EBITDA (Non-IFRS)	(2,065)	(1,168)	(3,546)	(489)
Adjusted EBITDA (Non-IFRS)	(1,422)	(762)	(2,485)	(22)

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 these two main sources of revenue.

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 Sesh, 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 and other income incidental to the Company's primary operations. Management expects interest and other income to continue to be insignificant going forward.

Results

Revenue decreased by \$2.15 million and \$5.95 million for the three and six months ended June 30, 2024, over the comparative period in 2023. This variation is mainly driven by:

- Revenue from Core Market operations decreased by \$1.78 million and \$5.78 million for the three and six months ended June 30, 2024, over the comparative period in 2023. In Vermont, the Company experienced a reduction of \$1.27 million and \$2.56 million in sales for the three and six months ended June 30, 2024, over the comparative period in 2023, which is mainly attributable to increased competition in recreational cannabis sales as more recreational dispensaries opened in the state over the past year. Recreational cannabis opened in Vermont in October 2022 and the Company's comparative revenue figures for the three and six months ended June 30, 2023 include heightened sales volumes before a significant amount of new dispensaries opened for business. This decrease in Vermont Core Market revenue was partially offset by higher wholesale sales in Vermont. In Colorado, the Company experienced a reduction of \$0.51 million and \$3.22 million in Core Market sales, representing a 16% and 37% decrease in sales for the three and six months ended June 30, 2024, over the comparative period in 2023. The Company's Colorado Core Market sales decreased at a faster rate than the market-wide decline in Colorado of 10% and 11% during the same three and six month periods, respectively⁴. The Company attributes this decrease to the following factors: (i) anomalous strong sales performance in Q1 2023 which increases the variance to Q1 2024 relatively; (ii) the reduction in sales to select key accounts, which the Company is addressing through entering into strategic partnerships with these customers in order to generate more consistent monthly and quarterly revenue; and (iii) the compression of retail pricing resulting in a significant impact on premium brands such as O.pen, requiring the Company to reduce its MSRP on various products to remain competitive.
- Revenue from E-commerce decreased by \$0.09 million and increased by \$0.16 million for the three and six months ended June 30, 2024, over the comparative periods in 2023. The reduction for the three months ended June 30, 2024 is primarily attributable to a decrease in O.pen and Firefly e-commerce sales, offset by an increase in Alchemy Naturals e-commerce sales. The increase for the six months ended June 30, 2024 is primarily attributable to an increase Alchemy Naturals and Firefly e-commerce sales, offset by a reduction in O.pen e-commerce sales. The O.pen and Firefly sales declines are a result of the e-commerce websites experiencing a reduction in site traffic due to Google algorithm updates resulting in a drop in organic search results. The Company is working to address this site traffic reduction through both technical and strategic SEO.
- Revenue from our Emerging Markets decreased by \$0.20 million for the three months ended June 30, 2024, whereas the change for the six months ended June 30, 2024 was not material, over the comparative periods in 2023. The reduction for the three months ended June 30, 2024, is primarily attributable to reduced sales to our partner Trulieve Cannabis Corp in Maryland offset by an increase in sales in Florida. The Company anticipates its Emerging Market sales to continue to decline and as such is in the process of evaluating all of its Emerging Market partnerships, which may result in the termination of any partnerships that do not contribute profitable sales to the Company's Emerging Market channel.
- Revenue from Distribution decreased by \$0.09 million and \$0.33 million for the three and six months ended June 30, 2024, over the comparative periods in 2023. The reduction for the three and six months ended June 30, 2024 is primarily due to the termination of a relationship with a U.S. distributor in 2023.

⁴ Source: Hoodie Analytics.

Gross Margin

Gross profit before fair value of biological assets decreased by \$1.30 million and \$3.34 million, and gross margin before fair value of biological assets decreased from 54% to 51% and from 53% to 52%, for the three and six months ended June 30, 2024, over the comparative periods in 2023, respectively. This reduction in gross profit before fair value of biological assets represents a 3% and 1% decrease year-over-year for the three and six months ended June 30, 2024, respectively. Comparing quarter-over-quarter gross margin before fair value adjustments of biological assets highlights the Company's effort to achieve sustained margins over 50%, given that the gross margin before fair value adjustments of biological assets was 51%, 52%, 51%, 52%, 54% and 52% for the last six sequential quarters.

Gross profit decreased by \$1.66 million and \$4.01 million, and gross margin decreased from 52% to 43% and from 52% to 45%, for the three and six months ended June 30, 2024, over the comparative periods in 2023, respectively. This reduction in gross profit represents a 9% and 7% decrease year-over-year for the three and six months ended June 30, 2024, respectively.

The Company's gross profit declined primarily due to the following factors:

- The reduction in revenue, which decreased by 26% and 31% for the three and six months ended June 30, 2024, over the comparative periods. This decline is similar to the reduction in gross profit before fair value of biological assets of 29% and 33%.
- Increased costs per unit attributable to fixed overhead, such as production facility costs, because of decreased unit demand in Vermont and Colorado.
- An increase in net fair value adjustments related to biological assets included in COGS as the Company reduces its inventory carry in Vermont given the decreased unit demand.

Below is the gross profit and gross profit margin from operations for the three and six months ended June 30, 2024, and 2023:

(In thousands of Canadian dollars except percentages)	For the three months ended		For the six months ended	
	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23
Net Operating Revenue	6,282	8,436	13,311	19,259
Cost of goods sold	3,050	3,900	6,429	9,041
Gross Profit Before Fair Value Adjustment of Biological Assets	3,232	4,536	6,882	10,218
Realized fair value amounts included in inventory sold	(659)	(609)	(1,239)	(1,032)
Unrealized gain on changes in fair value of biological assets	113	419	405	876
Gross Profit	2,686	4,346	6,048	10,062
Gross Margin	43%	52%	45%	52%
Gross Profit Before Fair Value Adjustment of Biological Assets	3,232	4,536	6,882	10,218
Gross Margin Before Fair Value Adjustment of Biological Assets	51%	54%	52%	53%

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

(In thousands of Canadian dollars except percentages)	Three-Months Ended							
	30-Jun-24	31-Mar-24	31-Dec-23	30-Sep-23	30-Jun-23	31-Mar-23	31-Dec-22	30-Sep-22
Net Operating Revenue From Continuing Operations	6,282	7,029	7,419	9,004	8,436	10,823	11,777	8,170
Cost of goods sold	3,050	3,379	3,618	4,348	3,900	5,141	6,077	4,153
Realized fair value amounts included in inventory sold	(659)	(580)	(705)	(375)	(609)	(423)	(1,298)	(584)
Unrealized gain on changes in fair value of biological assets	113	292	700	480	419	457	293	170
Cost of Goods Sold	3,596	3,667	3,623	4,243	4,090	5,107	7,082	4,567
Gross Profit	2,686	3,362	3,796	4,761	4,346	5,716	4,695	3,603
Gross Margin	43%	48%	51%	53%	52%	53%	40%	44%
Gross Profit Before Fair Value Adjustment of Biological Assets	3,232	3,650	3,801	4,656	4,536	5,682	5,700	4,017
Gross Margin Before Fair Value Adjustment of Biological Assets	51%	52%	51%	52%	54%	52%	48%	49%

Expenses and Other Income

(In thousands of Canadian dollars)	For the three months ended		For the six months ended	
	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23
Consulting and subcontractors (1)	140	479	297	755
Sales and marketing (2)	395	415	775	732
Professional fees (3)	497	470	1,020	932
Salaries and wages (4)	2,445	2,550	4,977	5,231
General and administrative (5)	920	1,179	1,838	2,170
Insurance (6)	366	370	693	750
Depreciation and amortization (7)	609	556	1,184	1,133
Expected credit losses (8)	4	1	11	1
Share based payments (9)	93	215	216	311
Total operating expenses	5,469	6,235	11,011	12,015
Other expense (income) (10)	33	(401)	262	(475)
Impairment (11)	4,297	-	4,297	-
Financing cost and fair value adjustment (12)	4,289	2,667	7,870	4,470
Income taxes (13)	158	428	306	967
Exchange differences on translation	(64)	581	(180)	580
Total Expenses	14,182	9,510	23,566	17,557

Operating Expenses

- Consulting and subcontracting expenses decreased by \$0.34 million and \$0.46 million in the three and six months ended June 30, 2024, compared to the same periods in 2023, respectively. This reduction is primarily attributed to (i) \$0.18 million in consulting fees associated with services relating to the filling of the ERTC during Q2 2023; (ii) \$0.08 million and \$0.19 million for the three and six months ended June 30, 2024, respectively, in consulting fees incurred in 2023 related to the preparation of an ERP implementation for the Company's Vermont subsidiaries which occurred on October 1, 2023; and (iii) \$0.05 million and \$0.07 million associated with consulting fees associated with staffing and commissions for recruiting qualified employees during 2023. Additionally, the decrease includes other \$0.03 million and \$0.02 million in other consulting fees

resulting from other cost-cutting measures.

- (2) Sales and marketing expenses decreased by \$0.02 million and increased by \$0.04 million in the three and six months ended June 30, 2024, compared to the same periods in 2023, respectively. The decrease for the three-month period ended June 30, 2024 is primarily due to a \$0.08 million reduction in advertising and promotional costs associated with emerging markets partnerships and branded products. This reduction was partially offset by increased spending of \$0.06 million on digital advertising to boost national e-commerce sales. The increase for the six-month period ended June 30, 2024 is attributed to \$0.17 million associated with the Company's continued investment in digital advertising to expand e-commerce sales nationally. This increase was partially offset by reductions in other marketing expenses, including advertising and promotional costs associated with emerging markets partnerships and branded products.
- (3) Professional fees increased by \$0.03 million and \$0.09 million in the three and six months ended June 30, 2024, compared to the same periods in 2023, respectively. The increase for the three-month period ended June 30, 2024 is primarily attributed to increased legal expenses relating to the complaint filed by a former majority shareholder of HiFi (*see Note 27 of the Financial Statements*) offset by a decrease in general legal fees related to the THC Free channel, which were incurred in the comparative period. The increase for the six-month period is primarily attributed to a one-time cost of \$0.13 million in tax advisor fees associated with the uncertain tax position related to the treatment of certain transactions and deductions under IRC Section 280E (as defined herein) that took place in Q1 2024 offset by a decrease in audit and tax compliance fees in Q1 and Q2 2024.
- (4) Salaries and wages decreased by \$0.11 million and \$0.25 million in the three and six months ended June 30, 2024, compared to the same periods in 2023, respectively. This variation was mainly driven by (i) a decrease of \$0.07 million and \$0.14 million in salaries and wages in Colorado for the three and six months ended June 30, 2024; (ii) a decrease of \$0.10 million and \$0.23 million in salaries and wages in Vermont for the three and six months ended June 30, 2024; and (iii) an increase of \$0.06 million and \$0.12 million for the three and six months ended June 30, 2024 in board fees and committee compensation. The reduction in Colorado and Vermont salaries and wages resulted from various cost cutting measures associated with the consolidation of production facilities in Colorado and the closure of a medical dispensary in Vermont.
- (5) General and administrative expenses decreased by \$0.26 million and \$0.33 million in the three and six months ended June 30, 2024, compared to the same periods in 2023, respectively. The decrease is mainly attributable to (i) a decrease of \$0.10 million and \$0.16 million for the three and six months ended June 30, 2024, respectively, in facilities, property tax and utilities expenses associated with the sale of two Colorado facilities during Q3 2023 and Q4 2023; (ii) a decrease of \$0.08 million and \$0.10 million for the three and six months ended June 30, 2024, respectively, in Vermont, resulting from cost-cutting measures and the closure of a medical dispensary in Middlebury in Q4 2023, and (iii) a decrease of \$0.06 million and \$0.05 million for the three and six months ended June 30, 2024, respectively, in freight and delivery costs associated with the reduction in sales.
- (6) The decrease in insurance premiums for the three and six months ended June 30, 2024, compared to the same periods in 2023, respectively is mainly due to lower costs associated with D&O insurance as the Company was able to secure a new D&O insurance provider at more competitive rates from September 2023 to August 2024. 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 have 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 driven by intangible assets, right of use assets and property, plant and equipment. Intangible assets resulted from acquisitions made throughout 2019, 2020 and 2021 where a significant amount of the purchase price was allocated to intangible assets.
- (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 three and six months ended June 30, 2024, and June 30, 2023, were insignificant.
- (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 expenses in regard to restricted stock units is recognized over the vesting period established by the Board. The decrease of \$0.12 million and \$0.10 in share-based payments for the three and six months ended June 30, 2024 over the comparative periods in 2023 is mainly due to (i) the comparative periods including share-based payments relating to the issuance of shares associated with employment agreements of Company employees; (ii) a higher volume of share-based compensation granted in 2020 and 2021 that resulted in higher expenses during the three and six months ended June 30, 2023 compared to June 30, 2024 and; (iii) new RSU's issued in March 2024 to satisfy 2023 employee bonus entitlements, in lieu of cash.

Other Expenses/Income

- (10) Other expenses (income) for the three and six months ended June 30, 2024 consist of \$0.25 million in insurance proceeds, \$0.05 million loss on sale of capital assets and \$0.25 million and \$0.46 million and foreign currency exchange losses. Other expenses (income) for the three and six months ended June 30, 2023 consisted mainly of \$0.40 million and \$0.37 million, respectively, of foreign currency exchange gains. In addition, there is a \$0.10 million gain on the sale of the Company's Trêtap branded asset, which took place in Q1 2023.
- (11) Impairment for the three and six months ended June 30, 2024 is attributable to \$1.46 million in impairment related to the Company's Open brand and \$0.37 million and \$2.47 million in impairment on goodwill and customer relationships, respectively, related to the Company's Slang Colorado Manufacturing ("**SCM**") CGU.
- (12) 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.

(In Canadian dollars)	For the three months ended		For the six months ended	
	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23
Fair value adjustment on derivative liabilities a) & b)	(42,412)	159,599	(118,837)	94,181
Accretion on lease liabilities c)	162,577	191,258	328,411	387,817
Accretion expense d)	3,374,903	1,606,709	6,103,251	2,948,826
Interest on convertible notes	764,701	686,345	1,499,098	1,349,831
Other interest expense	29,152	22,749	58,242	45,728
Fair value adjustment on financial instruments e)	-	-	-	(356,429)
Total	4,288,921	2,666,660	7,870,165	4,469,954

- 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\$2,523,939) to exchange an existing loan to Purple Organization, Inc. On November 1, 2021, the Company entered into an amended agreement, where the maturity date is extended to January 31, 2025, and all amounts owing, including interest, are due at maturity. The note conversion option represents an embedded derivative. The fair value adjustment to the derivative liability for the three and six months ended June 30, 2024, resulted in a fair value gain of \$5,219 and \$12,498 compared to a loss of \$15,229 and \$9,921 during the same periods in 2023, respectively. See Note 20 of the 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 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 transaction. Additionally, the Company is obligated to 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 three and six months ended June 30, 2024, resulted in a fair value gain of \$37,193 and \$106,339 compared to a loss of \$144,370 and \$84,260 during the same periods in 2023, respectively. See Note 20 of the 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 three and six months ended June 30, 2024 represent the accretion of the lease liabilities associated with the right of use assets.
- d) The accretion expense represents \$88,563 and \$171,788 in accretion on The Purple Company Inc. note described in a) above for the three and six months ended June 30, 2024, compared to \$72,056 and \$140,070 for the same periods in 2023, respectively, and \$3,286,340 and \$5,931,463 in accretion on the convertible note described in b) above for the three and six months ended June 30, 2024, compared to \$1,534,653 and \$2,808,756 for the same periods in 2023, respectively.
- (13) Income taxes are measured at the amount expected to be 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. For the three and six months ended June 30, 2024, the Company recognized income tax expense of \$157,737 and \$305,301 in the consolidated statement of loss and comprehensive loss, compared to \$428,100 and \$966,900 in the same periods in 2023, respectively. As of June 30, 2024, the Company

recorded \$1.93 million for uncertain tax positions related to the treatment of certain transactions and deductions under IRC Section 280E (as defined herein) based on legal interpretations that challenge the Company's tax liability under IRC Section 280E. See Note 25 to the Financial Statements for further details.

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 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, expected credit losses, 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.

EBITDA and Adjusted EBITDA Reconciliation

(In thousands of Canadian dollars)	For the three months ended		For the six months ended	
	30-Jun-24	30-Jun-23	30-Jun-24	30-Jun-23
Net Operating Revenue	6,282	8,436	13,311	19,259
Cost of Goods Sold	3,050	3,900	6,429	9,041
Realized fair value amounts included in inventory sold	(659)	(609)	(1,239)	(1,032)
Unrealized gain on changes in fair value of biological assets	113	419	405	876
Gross Profit	2,686	4,346	6,048	10,062
Operating expenses	5,469	6,235	11,011	12,015
Operating Loss	(2,783)	(1,889)	(4,963)	(1,953)
Depreciation	609	556	1,184	1,133
Depreciation - reclassified to cost of sales	109	165	233	330
EBITDA (Non-IFRS)	(2,065)	(1,168)	(3,546)	(490)
Share based payments	93	215	216	311
Inventory and biological assets fair value adjustments	546	190	834	156
Expected credit loss	4	1	11	1
Adjusted EBITDA (Non-IFRS)	(1,422)	(762)	(2,485)	(22)

EBITDA

EBITDA reduced by \$0.90 million and \$3.06 million for the three and six months ended June 30, 2024 when compared to the same periods in 2023, respectively.

The reduction in EBITDA for the three months ended June 30, 2024 was primarily attributable to a \$1.72 million reduction in gross profit (excluding depreciation costs), partially offset by a \$0.82 million reduction

in operating expenses (excluding depreciation expenses). The reduction in operating expenses is mainly attributed to a \$0.34 million reduction in consulting and subcontractors, \$0.26 million reduction in general and administrative expenses, \$0.12 million reduction in share-based payments and \$0.11 million reduction in salaries and wages. See *Gross Margin and Expenses and Other Income* for details surrounding the increase in gross profit and the reduction in operating expenses.

The reduction in EBITDA for the six months ended June 30, 2024 was primarily attributable to a \$4.11 million reduction in gross profit (excluding depreciation costs), partially offset by a \$1.05 million reduction in operating expenses (excluding depreciation expenses). The reduction in operating expenses is mainly attributed to a \$0.46 million reduction in consulting and subcontractors, \$0.33 million reduction in general and administrative expenses and \$0.25 million reduction in salaries and wages. See *Gross Margin and Expenses and Other Income* for details surrounding the increase in gross profit and the reduction in operating expenses.

Adjusted EBITDA

Adjusted EBITDA reduced by \$0.66 million and \$2.46 million for the three and six months ended June 30, 2024 when compared to the same periods in 2023, respectively.

The reduction in Adjusted EBITDA for the three months ended June 30, 2024 was primarily attributable to a \$1.36 million reduction in gross profit before fair value adjustments of biological assets (excluding depreciation costs) offset by a \$0.70 million reduction in operating expenses (excluding depreciation expenses, expected credit losses and share-based compensation). The reduction in operating expenses is mainly attributed to a \$0.34 million reduction in consulting and subcontractors, \$0.26 million reduction in general and administrative expenses and \$0.11 million reduction in salaries and wages. See *Gross Margin and Expenses and Other Income* for details surrounding the increase in gross profit and the reduction in operating expenses.

The reduction in Adjusted EBITDA for the six months ended June 30, 2024 was primarily attributable to a \$3.43 million reduction in gross profit before fair value adjustments of biological assets (excluding depreciation costs) offset by a \$0.97 million reduction in operating expenses (excluding depreciation expenses, expected credit losses and share-based compensation). The reduction in operating expenses is mainly attributed to a \$0.46 million reduction in consulting and subcontractors, \$0.33 million reduction in general and administrative expenses and \$0.25 million reduction in salaries and wages. See *Gross Margin and Expenses and Other Income* for details surrounding the increase in gross profit and the reduction in operating expenses.

4. Resources, Relationships and Risk

Resources

Financial Position

(In thousands of Canadian dollars except per dividends, per share)	As of 30-Jun-24	As of 31-Dec-23
Cash	2,641	5,057
Restricted cash	4,108	3,979
Working capital (deficit), excluding restricted cash	(28,169)	(15,255)
Total assets	22,816	33,203
Total liabilities	44,552	37,583
Shareholders' deficiency	(21,736)	(4,380)
Dividends, per share	-	-

The net decrease in cash and restricted cash of \$2.29 million for the six months ended June 30, 2024 over December 31, 2023 is mainly due to \$1.46 million of cash flows used in operating activities, \$1.06 million of cash flows used in financing activities and \$0.01 million of cash flows used in investing activities. Additionally, \$0.24 million in favourable foreign exchange impacts were realized in 2024. The decrease in working capital deficit, excluding restricted cash is mainly due to an \$8.15 million decrease as a consequence of increased accretion on convertible promissory notes (see *Note 20 of the Financial Statements*). Additionally, a \$2.41 million decrease in cash, a \$1.47 million decrease in inventories, a \$0.69 million decrease on prepaid and other deposits, and a decrease in current portion of notes payable of \$0.90 million, partially offset by a decrease in accounts payable and accrued liabilities of \$1.16 million, also contributed to the decrease in working capital deficit.

As of June 30, 2024, the Company has \$2.64 million in unrestricted cash available for general working capital purposes, which casts substantial doubt on the Company's ability to continue as a going concern (see *Note 2d of the Financial Statements and Going Concern on Pg. 21*). The Company is experiencing difficulty scaling through its corporate overhead costs associated with being a public company which are negatively impacting the Company's cash from operations. These costs include, but are not limited to, professional fees related to public reporting requirements, employee salaries and wages, D&O insurance costs, and regulatory compliance fees.

Note that the working capital deficit, excluding restricted cash, was restated as of December 31, 2023, given the amendments to IAS 1, presentation of financial statements, which became effective for reporting periods beginning on or after January 1, 2024 (see *Note 2a of the Financial Statements*).

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**"). The Corporation may be unable to repay the Loan Transaction on the Maturity Date (see *Risk Factors - Risks Related to the Corporation's Business – Repayment of Loan*

Transaction). 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. Pursuant to the Loan Transaction agreement, the Company is obligated to 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 are 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 not to move forward with the opportunity and during Q2 2024 has reached a Settlement Agreement Release with Woah Flow, LLC (see Note 10 of the Financial Statements for further details). 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 June 30, 2024:

Anticipated Use of Proceeds (In Canadian dollars)	Allocation of Proceeds	Proceeds Used 30-Jun-24
General Working Capital Requirements	17,863,409	15,222,582
Investment in New Jersey (Woah Flow, LLC)	1,035,001	1,035,001
Restricted Proceeds	4,108,350	-
Total	23,006,760	16,257,583

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.

(In Canadian dollars)	For the six months ended	
	30-Jun-24	30-Jun-23
Cash flows used in operating activities	(1,463,948)	(494,259)
Cash flows used in financing activities	(1,059,332)	(794,231)
Cash flows used in investing activities	(1,410)	(364,763)
Exchange rate changes on foreign currency cash balances	238,053	(196,976)
Net decrease in cash	(2,286,637)	(1,850,229)

Operating Activities

For the six months ended June 30, 2024, cash flows used in operating activities were approximately \$1.46 million, compared to \$0.49 million for the six months ended June 30, 2023. This reduction of \$0.97 million was primarily attributable to decreased revenue and gross profit, offset by a reduction of expenditures and an improvement associated with non-cash working capital balances during the period.

Financing Activities

For the six months ended June 30, 2024, cash flows used in financing activities were \$1.06 million, compared to \$0.79 million for the six months ended June 30, 2023. Cash flows used in financing activities primarily relates to lease payments. In addition, for the six months ended June 30, 2024, the Company made mandatory prepayments on a convertible debenture in the amount of \$0.27 million. This mandatory prepayment, made on May 14, 2024, was a requirement resulting from the Company receiving cash proceeds from an insurance claim.

Investing Activities

For the six months ended June 30, 2024, cash flows used in investing activities were \$1.41 thousand compared to \$0.36 million for the six months ended June 30, 2023. For the six months ended June 30, 2024, the cash out-flows were not material. For the six months ended June 30, 2023, the cash out-flows were primarily related to the deferred cash consideration payment on the acquisition of HiFi in the amount of \$0.33 million, the purchase of property plant and equipment in Vermont and Colorado in the amount of \$0.24 million, offset by proceeds received from the sale of Trêtap branded assets in the amount of \$0.21 million.

Going Concern

The Financial Statements have been prepared on a going concern basis which assumes that the Company will, in the foreseeable future, realize its assets and discharge its liabilities in the normal course of business as they come due. Accordingly, the Financial Statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the Financial Statements.

As at June 30, 2024, the Company had a working capital deficit of \$24,060,782 and the Company is generating negative cash flows from operating activities during the six months ended June 30, 2024 of \$1,463,948 and incurred a comprehensive loss of \$17,518,257. In addition, the Company's convertible notes mature on November 15, 2024, and January 31, 2025 (refer to Note 20 of the Financial Statements), and a significant note payable matures on June 30, 2025 (refer to Note 18 of the Financial Statements). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is contingent upon management's plan over the next twelve months to improve the Company's liquidity and profitability, which includes, without limitation:

- Seeking additional capital through the issuance of debt or equity securities
- Refinancing existing debt at acceptable terms to the Company
- Increasing revenue by introducing new products and acquiring new customers

- Further reducing operating expenses by taking additional restructuring actions to align costs with revenue to achieve profitability
- Any other strategic alternative including a potential business combination, sale, divestiture, acquisition, or merger involving our business assets in order to improve the Company's operations and cash position.

In view of the matters detailed above, continuation as a going concern is dependent upon the continued operations of the Company, which in turn is dependent upon the Company's ability to refinance its financial requirements and to raise additional capital, and the success of its future operations. The financial statements do not include any adjustments to the amount and classification of assets and liabilities that may be necessary should the Company not continue as a going concern. Such adjustments could be material.

The Company's management cannot provide assurances that the Company will be successful in accomplishing any of its proposed financing plans and as such may have insufficient cash to fund planned operations through the 2024 fiscal year. Management also cannot provide any assurance as to unforeseen circumstances that could occur within the next 12 months or, if the Company raises capital, thereafter, which could increase the Company's need to raise additional capital on an immediate basis, which capital may not be available to the Company. The conditions described above raise substantial doubt with respect to our ability to meet our obligations for at least one year from the issuance of the Financial Statements, and therefore, to continue as a going concern.

Strategic Alternatives

The Company previously announced that it has retained PGP Capital Advisors, LLC, ("**PGP**") to assist in a review of its strategic alternatives. The Board has formed a committee of independent directors to assist the Company's management and PGP in exploring, reviewing and evaluating strategic alternatives that may be available to the Company. This includes a full range of strategic and financial alternatives, including, but not limited to, one or more of the following: a business combination, sale, divestiture, acquisition or merger that may involve all or part of our business or assets, restructuring, recapitalization, refinancing, or any other strategic transaction that may be identified during our strategic review.

The Company is currently in the process of evaluating alternatives, but no specific course of action has been decided yet.

Outstanding Share Data

Description	Authorized Capital of the Company	Outstanding as of the date of this MD&A
Common Shares	Unlimited	188,028,752
Restricted Voting Shares	Unlimited	41,152,585
Warrants	N/A	13,977,287 ⁽¹⁾
Convertible Promissory Note	N/A	US\$1,843,031 ⁽²⁾
Convertible Debt	N/A	US\$17,319,588 ⁽³⁾

Notes:

1. Includes 8,170,587 warrants held by Canopy Growth Corporation ("**Canopy**") calculated pursuant to a formula. Each warrant held by Canopy becomes exercisable 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 U.S. federal cannabis legalization.

2. 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.
3. 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.

Relationships

Related Party Transactions

At June 30, 2024 and December 31, 2023 there were no balances due to or from related parties and there were no transactions with related parties during the three and six months ended June 30, 2024 other than those related to key management compensation outlined in Note 26 of the Financial Statements.

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.

Regulatory Overview

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 in the United States, the Company is subject to the Staff Notice and accordingly provides the following disclosures.

Nature of Involvement

As of June 30, 2024, almost 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 directly involved in the production and distribution of cannabis in the states of Colorado and Vermont.

United States Federal Overview

In the U.S., thirty-nine 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-four 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.

Hemp

On December 20, 2018, former President Trump signed into law the *Agricultural Improvement Act of 2018* (the "**2018 Farm Bill**"),⁵ 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. 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 (the "**THC**") 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 state plans. As of mid-August 2024, the USDA had approved 42 state plans, three Territory plans, and 54 tribal plans, and confirmed that eight other states and eight other tribes would allow entities to attain licenses under USDA regulations.⁶

The 2018 Farm Bill also created a specific exemption from the CSA for THC found in hemp. By defining hemp to include cannabinoids, derivatives, and extracts, the DEA no longer has regulatory jurisdiction over hemp products, so long as the THC level of such products is at or below 0.3% delta-9 on a "dry weight basis" and the hemp and its derivatives were grown and processed by a person holding a license issued by either (i) the USDA or (ii) the applicable state agency in a state with a USDA-approved hemp plan.

⁵ The Agriculture Improvement Act of 2018, Pub. L. 115-334. Notably, instead of enacting a new 5-year farm bill, on November 19, 2023, Congress enacted a one-year extension (P.L. 118-22, Division B, §102). The extension continues farm bill-related authorizations until September 30, 2024. See, e.g., Congressional Research Service, "Expiration of the 2018 Farm Bill and Extension in 2024," (February 23, 2024), <https://crsreports.congress.gov/product/pdf/R/R47659>. In addition, a draft amendment proposed by Rep. Mary Miller (R-IL) in May 2024 that would essentially shutter the hemp intoxicating and THCa flower markets was included in the House Appropriations Committee's FY 2025 draft Agriculture Appropriations bill—but whether Congress will ultimately pass these changes (or others) remains unclear. See, e.g., Cannabis Business Times, "'Devastating' Hemp Amendment Language Included in FY 2025 Agriculture/FDA Bill," (June 11, 2024), <https://www.cannabisbusinesstimes.com/news/hemp-amendment-banning-hemp-derived-intoxicating-cannabinoids-total-thc-definition-fy-2025-agriculture-fda-bill/>.

⁶ *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 August 19, 2024).

Despite the passage of the 2018 Farm Bill, there remains some ambiguity as to which products are considered lawful under federal laws in the United States, including, without limitation (i) products containing CBD; (ii) products containing, for example, certain amounts of delta-9 THC per serving, but less than 0.3% delta-9 THC on a “dry weight basis”; and (iii) products containing delta-8 THC (or other hemp-derived THC isomers). Much of this ambiguity is due to federal statutes and regulations other than the 2018 Farm Bill and/or the CSA, including, without limitation, DEA’s Interim Final Rule (the “**IFR**”),⁷ Federal Food, Drug, and Cosmetic Act (“**FDCA**”),⁸ and Federal Analogue Act,⁹ and the enforcement priorities (or lack thereof) of the federal agencies tasked with enforcing such laws and regulations.

For example, on August 21, 2020, the DEA issued the IFR to implement the 2018 Farm Bill. Even though the 2018 Farm Bill removed hemp and THCs in hemp from scheduling under the CSA, the IFR purported to clarify that material that exceeds 0.3% delta-9 THC remains controlled in Schedule I of the CSA. Additionally, the IFR stated that the 2018 Farm Bill does not impact the control status of synthetically derived THCs, for which the DEA claims that the amount of THC is not a determining factor in whether the material is a controlled substance. “Synthetically derived” is not defined in the IFR. Many states have defined “synthetically derived” to include delta-8 THC. In addition, it is worth noting that at the DEA’s May 2023 Supply Chain Conference, Terrence Boos (Chief of the DEA’s Drug & Chemical Evaluation Section) reportedly stated that the agency intends to propose a new rule clarifying that cannabinoids chemically converted from CBD would be considered “synthetically derived,” and thus controlled under the CSA.¹⁰

Further, under the Federal Analogue Act, substances that are “substantially similar” to controlled substances and which have a “stimulant, depressant, or hallucinogenic effect on the central nervous system (CNS) that is substantially similar to or greater than” the particular controlled substance, are treated as controlled substances under U.S. federal law.¹¹

Finally, although the 2018 Farm Bill removes hemp from the CSA, the 2018 Farm Bill does preserve the authority and jurisdiction of the Food and Drug Administration (the “**FDA**”), under the FDCA, to regulate the manufacture, marketing, and sale of food, drugs, dietary supplements, and cosmetics, including products that contain hemp extracts and derivatives, such as CBD. The FDCA will therefore continue to apply to hemp-derived food, drugs, dietary supplements, cosmetics, and devices introduced, or prepared for introduction, into interstate commerce. As a producer and marketer of hemp-derived products, the Corporation must comply with FDA regulations applicable to manufacturing and marketing of certain products, including food, dietary supplements, and cosmetics. However, the FDA has taken the position that it is unlawful to sell or market a dietary supplement or food containing CBD.

That said, FDA’s enforcement actions to date have been limited to warning letters. Moreover, the FDA’s warning letters citing FDA’s prohibition on the sale or marketing of dietary supplements or foods containing CBD have primarily been sent to CBD companies that make “egregious and unfounded” health claims, such as a product’s purported ability to treat or cure serious diseases and conditions like COVID-19, cancer, or diabetes. By contrast, the FDA has not generally enforced against CBD companies whose CBD products

⁷ See 85 FR 51639 (August 21, 2020)

⁸ See 21 U.S.C. 301 *et seq.*

⁹ See 21 U.S.C. 813.

¹⁰ See, e.g., Marijuana Moment, “DEA Official Says New Rules Are Coming for Synthetic Cannabinoids, Including CBD and Delta-8 THC,” (May 17, 2023), <https://www.marijuanamoment.net/dea-official-says-new-rules-are-coming-for-synthetic-cannabinoids-including-cbd-and-delta-8-thc/>. In mid-August, 2023, news reports discussed a 2021 email from Mr. Boos (uncovered from litigation) that again reiterates his opinion that delta-8 chemically converted from CBD would be considered “synthetic” and thus controlled under the CSA. See, e.g., Ganjapreneur Article (August 16, 2023), <https://www.ganjapreneur.com/dea-confirmed-to-believe-delta-8-thc-synthesized-from-cbd-is-federally-illegal/>.

¹¹ See, e.g., 21 U.S.C. 802(32)(a)

are devoid of such claims. The FDA has sent similar letters to companies for selling products containing delta-8 THC.

In addition, the FDA has issued policy statements expressing concerns about delta-8's psychoactive and intoxicating effects; noting that products containing delta-8 have not been evaluated or approved by the FDA for safe use and may be marketed in ways that put the public health at risk; and highlighting that it has received adverse event reports involving products containing delta-8.¹² From 2023 into 2024, the FDA has also increasingly tended to target companies selling delta-THC products sold in forms "that are appealing to children," including those that "mimic well-known snack food brands."¹³

In sum, despite the positive changes brought by the 2018 Farm Bill, there remain a number of considerations, potential changes in laws, and uncertainties regarding the cultivation, sourcing, production and distribution of hemp and products containing hemp derivatives. Applicable laws and regulations in the U.S. remain subject to change as there are different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses with respect to the treatment of hemp, including but not limited to the scope of operation of the 2018 Farm Bill, and the authorizations granted to 2018 Farm Bill-compliant hemp growers and licensed hemp-derived CBD or delta-8/THC isomer producers. Such interpretations touch on, among other things, the regulation of cannabinoids by the DEA and FDA. These uncertainties likely cannot be resolved without further federal and state legislation, regulation or a definitive judicial interpretation of existing legislation and rules, and in the interim period, there remain several legal considerations underlining the sale of hemp-derived products, including, but not limited to, (i) the fact that hemp and cannabis are both derived from the cannabis plant, (ii) the rapidly changing patchwork of state laws governing hemp and hemp-derived products, (iii) the lack of FDA approval for CBD as a food ingredient, food additive or dietary supplement, (iv) the uncertain legal status of delta-8 products, and (v) the question of what legally constitutes a "synthetically derived" hemp derivative.

In addition to the above considerations, many states have enacted laws regulating or prohibiting the production, distribution, and/or sale of certain hemp-derived products.

The Corporation derives a portion of its revenue from the sale of what it understands to be hemp. Nevertheless, the uncertainty involving federal and state laws creates a risk of enforcement of current or future U.S. federal laws or companion state laws. Such enforcement could cause financial damage to the Corporation and its shareholders.

Cannabis

At the federal level, however, cannabis remains a Schedule I controlled substance under the 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.

¹² See, e.g., FDA, "5 Things to Know about Delta-8 Tetrahydrocannabinol – Delta-8 THC," (May 4, 2022), <https://www.fda.gov/consumers/consumer-updates/5-things-know-about-delta-8-tetrahydrocannabinol-delta-8-thc>

¹³ See, e.g., FDA Warning Letter, MARCS-CSM 674690 (July 15, 2024), <https://www.fda.gov/inspections-compliance-enforcement-and-criminal-investigations/warning-letters/grow-god-llc-674690-07152024>

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.¹⁴ The Joyce amendment was most recently extended on March 9, 2024, and is effective through fiscal years ending September 30, 2024.¹⁵

Moreover, even while the Attorney General position was filled by Jeff Sessions, who rescinded the DOJ’s previously issued guidance permitting U.S. 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.

During his campaign, President Biden promised federal reform on cannabis, including decriminalization generally and has made history in several impactful ways. In 2022, President Biden signed into law the “Medical Marijuana and Cannabidiol Research Expansion Act,” a bill aimed at easing restrictions on cannabis research -- bipartisan legislation which is the first standalone cannabis reform bill to pass both the House and Senate. In recent years, members of the U.S. Congress from both parties have introduced bills to end the federal cannabis prohibition, by de-scheduling cannabis completely and regulating it, as well as incremental reform bills, including the “Medical Marijuana and Cannabidiol Research Expansion Act” described above. 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. However, a new President in 2024 could impact reform in ways that are unpredictable; Vice President Harris is the first presidential candidate to support cannabis legalization, while former President Trump has hinted at evolving opinions regarding cannabis decriminalization.

Consistent with Biden’s directives, U.S. Attorney General Merrick Garland is expected to not interfere with cannabis businesses operating in compliance with states’ laws. 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.”¹⁶ 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.¹⁷ Therefore, the status quo of federal non-

¹⁴ See, e.g., *United States v. McIntosh*, 833 F.3d 1163 (9th Cir. 2016).

¹⁵ See Consolidated Appropriations Act, 2024, Public Law No. 118-42, § 531, <https://www.congress.gov/bill/118th-congress/house-bill/4366/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.”).

¹⁶ 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>.

¹⁷ 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/>.

enforcement is expected to continue for the foreseeable future.¹⁸ Additionally, industry advocates remain hopeful that some reform will be possible in the coming years, including banking reform. For example, the Senate Banking Committee recently passed the Secure and Fair Enforcement Regulation Banking Act (“**SAFER**”) Banking Act, which would protect financial institutions and other parties accepting money derived from the state-legal cannabis industry by “creat[ing] protections for financial institutions that provide financial services to [state-legal cannabis companies] and service providers for such businesses,” and also explicitly protects insurers.¹⁹ The SAFER Banking Act could be advanced for a vote in the Senate this legislative session.

On October 6, 2022, President Biden again made history when he 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.”²⁰ 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.”²¹ In a late August, 2023 letter to the Drug Enforcement Administration (“**DEA**”), the U.S. Department of Health and Human Services formally recommended the rescheduling of cannabis to Schedule III²². Subsequently, on April 30, 2024, the DEA publicized its intention to reschedule cannabis to Schedule III. On May 17, 2024, in a Notice of Proposed Rulemaking, the Attorney General initiated proceedings to transfer cannabis from Schedule I to Schedule III²³. By the end of the notice-and-comment period in July, the DEA had received more than forty thousand comments and numerous petitions for the DEA to hold an administrative hearing. As of mid-August, the DEA has yet to publicize whether a hearing will be held. Historically, the rescheduling of specific controlled substances by the DEA takes many months (if not years) to complete. Until such time, cannabis will remain a Schedule I substance.

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.

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.”

¹⁸ 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).

¹⁹ See, e.g., Secure and Fair Enforcement Regulation Banking Act, S. 2860 (118th Congress, 2023-2024), <https://www.congress.gov/118/bills/s/2860/BILLS-118s2860is.pdf>.

²⁰ The White House, “Statement from President Biden on Marijuana Reform” (Oct. 6, 2022), <https://www.whitehouse.gov/briefing-room/statements-releases/2022/10/06/statement-from-president-biden-on-marijuana-reform/>.

²¹ *Id.*

²² See AP News, “US poised to ease restrictions on marijuana in historic shift, but it’ll remain controlled substance,” (April 30, 2024), <https://apnews.com/article/marijuana-biden-dea-criminal-justice-pot-f833a8dae6ceb31a8658a5d65832a3b8>.

²³ See Notice of Proposed Rulemaking, “Rescheduling of Marijuana,” 89 FR 44597 (May 21, 2024), <https://www.federalregister.gov/documents/2024/05/21/2024-11137/schedules-of-controlled-substances-rescheduling-of-marijuana>

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 August 6, 2024, adopted emergency rules (implementing Senate Bill 24-076), which amended the Code of Colorado Regulations (“**C.C.R.**”) sections 1 C.C.R. 212-3.

Through its subsidiary, Slang Colorado Manufacturing, Inc. (“**SCM**”), the Corporation holds Marijuana Enforcement Division Infused Product Manufacturer (Medical) and Marijuana Products Manufacturer licenses (Retail) (collectively, the “**Colorado Licenses**”). Under these licenses, the Corporation’s subsidiary 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 Infused 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 purchases 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 generally conducts an annual license renewal inspection prior to approval. MED may also inspect a licensed premises upon receiving a complaint alleging that the licensee violated one or more rules. Inspections may cover the entire physical premises, business records, personnel, equipment, security, and operational procedures.

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 subsidiary SCM. SCM manufactures all of Slang's products in the State of Colorado 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	03/24/2025	Manufacturing – Retail Marijuana Products Mfg
Slang Colorado Manufacturing Inc.	404-00173	Denver	02/06/2025	Manufacturing – Infused Product Manufacturer

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 four vertically integrated licenses. Each license permits the owner to operate a grow/processing facility and up to two dispensaries. As of August 2024, there were four operational medical cannabis locations. 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 HiFi, a vertically integrated cannabis company, which possesses two of Vermont's five existing medical marijuana licenses and operates two 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 and Ceres (Burlington) as an integrated license. As of August 2024, about 78²⁴ 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 five 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 regarding 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 generally conducts an annual license renewal inspection prior to approval. The CCB may also inspect licensed premises upon receiving a complaint alleging that the licensee violated one or more rules. Inspections may cover the entire physical premises, business records, personnel, equipment, security, and operational procedures.

²⁴ Source: Cannabis Control Board (State of Vermont). [Licensed Cannabis Products, Establishments & Employees | Cannabis Control Board \(vermont.gov\)](#)

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 a 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 HiFi, a vertically integrated Vermont cannabis company, which holds two of the medical cannabis licenses available in Vermont, and under those, operates two 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. Federal 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 almost ten 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 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 CSA with respect to cannabis or the Drug Enforcement Administration 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 likelihood of proceedings of this nature arising 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. While under the Biden administration there does not appear to be a departure from previous administrations regarding cannabis enforcement, there can be no assurances that a future administration will not change the current enforcement policy and decide to strongly enforce the federal laws. The Corporation regularly monitors the activities of presidential administrations 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

Repayment of Loan Transaction

November 15, 2024 is the Maturity Date for the Loan Transaction and the Corporation may be unable to repay the Loan Transaction on the Maturity Date. In the event the Corporation is unable to repay or refinance these debt obligations (or if the Corporation must refinance these debt obligations on less favourable terms), it may adversely affect the Corporation's ability to fund its ongoing operations. There is no certainty that the Corporation will be in a position to make such repayment if required. Even if the Corporation is able to obtain new financing in order to satisfy any obligations relating to the Loan Transaction, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the Loan Transaction, or refinance these obligations, the Lenders could seek legal recourse against the Corporation for amounts owed, including, without limitation, proceeding against the collateral granted to them to secure such indebtedness, or forcing the Corporation into bankruptcy or liquidation.

The Financial Statements were prepared on a going concern basis.

The Financial Statements were prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. Generally, the primary sources of capital resources are comprised of cash and cash equivalents and the issuance of equity and debt securities. The Corporation continuously monitors its capital structure and based on changes in operations and economic conditions, may adjust the structure by issuing new shares or new debt as necessary. Management does not believe that current cash on hand will be sufficient to fund projected operating requirements. This raises substantial doubt about the Corporation's ability to continue as a going

concern. The ability to continue to implement the Corporation's business strategy is dependent on obtaining additional financing, the ability to successfully settle liabilities and achieving and maintaining profitable operations. There are no guarantees that the Corporation will be able to secure any public or private equity or debt financing in the future on terms acceptable to the Corporation, if at all, or be able to achieve profitability. The going concern opinion could materially limit the ability to raise additional funds through the issuance of equity or debt securities or otherwise. If the Corporation cannot continue as a going concern, investors may lose their entire investment in the Corporation's securities. Until the Corporation can generate significant cash flows, management is constrained to seek debt or equity financing to satisfy future cash needs through; however, there can be no assurance that such capital will be available, or if available, that it will be on terms acceptable to the Corporation.

The Corporation has previously experienced negative cash flow from operating activities.

The Corporation does not have a history of profitability. The Corporation has previously experienced negative cash flow from operating activities and cannot provide assurance that it will achieve sufficient revenues to maintain profitability or positive cash flow from operating activities. The inability to maintain profitability or positive cash flow from operating activities could have a material adverse effect on the business, financial condition and results of operations. The Corporation is therefore subject to many of the risks common to high growth enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of earnings. In addition, the Corporation is currently incurring expenditures related to its operating activities that have generated negative operating cash flows. The Corporation cannot provide any assurance that it will generate sufficient revenues in the near future, and it may continue to incur negative operating cash flows for the foreseeable future. The Corporation cannot provide assurance that we will be successful in achieving a return on shareholders' investment.

The Corporation will require additional financing

It is expected that the Corporation will require equity and/or debt financing within the next twelve months, to support on-going operations (given the Maturity Date of the Loan Transaction), 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 result in a default under the Loan Transaction, limit the Corporation's growth and may have a material adverse effect upon the Corporation's business, results of operations, financial condition or prospects.

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 may not be able to maintain the Colorado Licenses if it is unable to regain its status as a "Publicly Traded Corporation" within the meaning of the C.R.S.

The Corporation, through its subsidiary SCM, has historically qualified to hold the Colorado Licenses in Colorado on the basis that the Corporation qualifies as a "Publicly Traded Corporation" within the meaning of the C.R.S. In order for the Corporation to qualify as a Publicly Traded Company, it must either (i) maintain (1) the listing of the Common Shares on the Canadian Securities exchange (or another Canadian stock exchange), and (2) its status as a "foreign private issuer" (within the meaning of applicable U.S. securities laws), or (ii) have a class of securities registered with the U.S. Securities and Exchange Commission.

The Corporation has ceased to qualify as a foreign private issuer and no longer meets the definition of a Publicly Traded Corporation within the meaning of the C.R.S.

Following extensive discussions, the MED has granted the Corporation an extension (the "**Colorado Extension**") for the time by which it must re-qualify as a Publicly Traded Corporation. Specifically, the MED has advised that the Corporation may maintain the Colorado Licenses provided that the Corporation qualifies as a Publicly Traded Corporation by the next renewal date for the Colorado Licenses, being September 6, 2024 (the "**Colorado Renewal Date**"). In the event that the Corporation does not qualify as a Publicly Traded Corporation on the Colorado Renewal Date, the MED may extend the Colorado Extension to provide the Corporation additional time to regain compliance or may determine that the Corporation no longer qualifies to hold the Colorado Licenses. The loss by the Corporation of the Colorado Licenses would impede the Corporation's operations in Colorado and have a material adverse effect on the Corporation's business, financial condition and results of operations or prospects. See "*Risk Factors - The Corporation's success depends on its ability to obtain and maintain required government licenses and permits*".

The Corporation may suffer reduced profitability as a result of losing foreign private issuer status in the U.S.

The Corporation has recently ceased to qualify as "Foreign Private Issuer" under the rules of the U.S. Securities and Exchange Commission. This change in status could have a significant effect on the Corporation as it may 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 become profitable could be significantly affected.

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.

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 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'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 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. 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 in 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 violates 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 mid-August, 2024, the USDA had approved 42 state plans, three Territory plans, and 54 tribal plans, and confirmed that eight other states and eight other tribes would allow entities to attain licenses under USDA regulations.²⁵

The hemp and pharmaceutical industry may attempt to compete with or dominate the cannabis market, and in particular, legal cannabis, through the development and distribution of hemp-derived or synthetic

²⁵ *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 August 19, 2024).

products which emulate the effects and treatment of cannabis. If they are successful, the widespread popularity of such products could change the demand, volume and profitability of the cannabis market.

Further, there has been a proliferation of the extraction of delta-8 THC and other intoxicating cannabinoids from industrial hemp and infusion of these isomers into various saleable and finished products. Utilizing the legality of industrial hemp under U.S. federal law, many such products are available for sale through unlicensed channels and are shipped in interstate commerce. Additionally, some hemp companies sell hemp-derived THC products with state authorization. Given the similar intoxicating effects to cannabis-derived THC, which is an illegal substance under the CSA, and its substantially lower price point, patients and consumers may choose to consume hemp-derived products in lieu of cannabis-derived products.

The future legality of hemp products, including delta-8 and CBD products, is uncertain

Despite the positive changes brought by the 2018 Farm Bill, there remain a number of considerations, potential changes in laws, and uncertainties regarding the cultivation, sourcing, production and distribution of hemp and certain hemp products. Applicable laws and regulations in the U.S. remain subject to change as there are different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses with respect to the treatment of hemp, including but not limited to the scope of operation of the 2018 Farm Bill, and the authorizations granted to 2018 Farm Bill-compliant hemp growers and product manufacturers. Such interpretations touch on, among other things, the regulation of cannabinoids by the DEA and FDA. These uncertainties likely cannot be resolved without further federal and state legislation, regulation or a definitive judicial interpretation of existing legislation and rules, and in the interim period, there remain several legal considerations underlining the sale of hemp-derived products, including, but not limited to, (i) the fact that hemp and cannabis are both derived from the cannabis plant, (ii) the rapidly changing patchwork of state laws governing hemp and hemp-derived products, (iii) the lack of FDA approval for CBD as a food ingredient, food additive or dietary supplement, (iv) the variable legal status of delta-8 products, and (v) the question of what legally constitutes a “synthetically derived” hemp derivative.

In addition to the above considerations, many states have enacted laws regulating or prohibiting the production, distribution, and/or sale of certain hemp-derived products.

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

The Corporation operates in an emerging industry and it 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 may 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. As of June 30, 2024, the Company recorded \$1.93 million for uncertain tax positions related to the treatment of certain transactions and deductions under IRC Section 280E based on legal interpretations that challenge the Company's tax liability under IRC Section 280E. See Note 25 to the Financial Statements for further details.

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. 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 expensive 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. 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 marketplace.

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). Regulators have become more focused on the vaporizer devices, the manner in which the devices are used and the related vaporizer liquids - 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, 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 more completely 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 may 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 legalizing cannabis 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 mature. 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.

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 the 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 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, 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 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.

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. In the past, there has been 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 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.

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 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.

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, 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 U.S. 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.

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 cash, and restricted cash, accounts receivable, other receivables, amounts due from related parties, deposit on acquisition 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 is comprised of 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.

Accounts receivable and expected credit loss

Accounts receivable are recorded at the invoiced amount and do not bear interest. Expected credit loss reflects the Company's estimate of amounts in its existing accounts receivable that may not be collected due to customer claims or customer inability or unwillingness to pay. Collectability of accounts receivables is reviewed on an ongoing basis. The expected credit loss is determined based on a combination of factors, including the Company's risk assessment regarding the credit worthiness of its customers, historical collection experience and length of time the receivables are past due. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered.

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 bargain purchase.

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

Proprietary technology and 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.

Income Taxes

The Company is subject to assessments by tax authorities, who may interpret tax legislation differently than the Company. When there is uncertainty over income tax positions, the Company assesses whether it is probable that the relevant tax authority will accept the uncertain tax position. This assessment affects the amount of income tax expense recognized by the Company. If the Company concludes that it is not probable that a tax authority will accept the uncertain tax position, the effect of the uncertain tax position is reflected in the determination of the Company's income tax expense or recovery based on the most likely amount or, if there are a wide range of possible outcomes, the expected value. Any interest and penalties

related to unrecognized tax liabilities are presented within provision for income taxes within the consolidated statements of operations.

IRC Section 280E and Uncertain Tax Position

The IRS has taken the position that cannabis companies are subject to the limits of IRC Section 280E under which they are only allowed to deduct expenses directly related to the production of inventory. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

The Company operates in a number of domestic tax jurisdictions and is subject to examination of its income tax returns by tax authorities in these jurisdictions who may challenge any item of those returns. Because tax matters that may be challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain. The Company accounts for uncertain tax positions by recognizing the financial statement effects of a tax position only when, based upon technical merits, it is more-likely-than-not that the position will be sustained upon examination. The Company evaluates uncertain tax positions on a quarterly basis and adjusts the level of the liability to reflect any subsequent changes in the relevant facts surrounding the uncertain positions. The measurement of the uncertain tax position is based on the largest benefit amount to be realized upon settlement of the matter. If payment ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. If the Company's estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to income tax expense may result. As of June 30, 2024, the Company recorded an uncertain tax liability for uncertain tax positions primarily related to the treatment of certain transactions and deductions under IRC Section 280E based on legal interpretations that challenge the Company's tax liability under IRC Section 280E. These uncertain tax positions are included in uncertain tax position liabilities in the Financial Statements.

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.

Subsequent Events

The Company evaluated subsequent events through to August 26, 2024, the date these interim condensed consolidated financial statements were issued.

Under the terms of a convertible note (see *Note 20 of the Financial Statements*), the Company made a mandatory prepayment against the maturity fee in the amount of US\$77,814 on July 2, 2024. The mandatory prepayment was a requirement resulting from the Company receiving cash proceeds from an insurance claim.

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.sedarplus.ca.