

## CANSORTIUM INC.

### SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides information concerning the financial condition and results of operations of Cansortium Inc. (the "Company"). This MD&A is provided as of July 7, 2020 unless otherwise stated, and should be read along with the Cansortium Inc. ("Condensed Interim Consolidated Financial Statements") and the accompanying notes for the three months ended March 31, 2020 and 2019.

The results reported herein have been prepared in accordance with IFRS and, unless otherwise noted, are expressed in United States thousands of dollars.

The Condensed Interim Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries and the Company's interests in affiliated companies (see "Basis of Consolidation" section within this MD&A). All intercompany balances and transactions have been eliminated on consolidation.

This MD&A includes non-IFRS financial measures, such as "Adjusted gross profit", "Adjusted gross margin", "Pro-forma revenue", "Pro-forma adjusted gross profit", "Pro-forma adjusted gross margin", "Pro-forma income (loss) from operations", "EBITDA", "Adjusted EBITDA", "EBITDA margin" and "Adjusted EBITDA margin", as defined below. The management of the Company believes that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, provide information that is helpful to understand the results of operations and financial condition of the Company. The objective is to present readers with a view of the Company from the management's perspective by interpreting the material trends and activities that affect the operating results, liquidity, and financial position of the Company. These measures are not necessarily comparable to similarly titled measures used by other companies.

"Adjusted gross profit" is gross profit plus (minus) the changes in fair value of biological assets. "Adjusted gross margin" is "Adjusted gross profit" divided by revenue. "EBITDA" is net income (loss), plus (minus) interest expense (income) and finance transactions costs, plus taxes, plus depreciation and amortization. "EBITDA margin" is equal to EBITDA divided by revenue. "Adjusted EBITDA" is equal to EBITDA plus (minus) the changes in fair value of biological assets, plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. "Adjusted EBITDA Margin" is equal to Adjusted EBITDA divided by revenue. "Pro-forma revenue" is revenue plus Knox Servicing, LLC revenue from January 1, 2017 to August 15, 2018. "Pro-forma adjusted gross profit" is "Adjusted gross profit" plus Knox Servicing, LLC gross profit plus (minus) the changes in fair value of biological assets for periods ending prior to August 15, 2018. "Pro-forma adjusted gross margin" is "Pro-forma adjusted gross profit" divided by "Pro-forma revenue". "Pro-forma income (loss) from operations" is income (loss) from operations plus (minus) Fluent Servicing, LLC income (loss) from operations for periods ending prior to August 15, 2018.

Cansortium Inc. was incorporated under the laws of the Province of Ontario, Canada pursuant to the Business Corporations Act (Ontario) ("OBCA") on August 31, 2018. The Company's registered office is located at 295 The West Mall, Suite 600, Toronto, Ontario, M9C 4Z4 and its head office is located at 82 North East 26th Street, Suite 110, Miami, Florida, United States, 33137. In March 2019, the Company acquired all member units of Cansortium Holdings LLC ("Cansortium Holdings"), in connection with the Company's initial public offering listing ("IPO") on the Canadian Securities Exchange. The Company's shares are listed on the Canadian Securities Exchange ("CSE") under the trading symbol "TIUM.U" and on the OTCQB Venture Market under the trading symbol "CNTMF".

Additional information relating to the Company, including the Company's audited year-end financial results and unaudited quarterly financial results, can be accessed on SEDAR ([www.sedar.com](http://www.sedar.com)).

## Cautionary Note Regarding Forward-Looking Statements

This MD&A contains forward-looking statements that relate to the Company's current expectations and views of future events. All statements, other than statements of historical facts, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "predict" or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements may include, among other things, statements relating to future financial conditions, results of operations, plan, objectives, performance, or business developments.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to (i) obtaining the necessary regulatory approvals; (ii) that regulatory requirements will be maintained; (iii) general business and economic conditions; (iv) the Company's ability to successfully execute its plans and intentions; (v) the availability of financing on reasonable terms; (vi) the Company's ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Company's competitors; and (ix) that the Company's current good relationships with the Company's suppliers, service providers and other third parties will be maintained. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions, and other factors, including risks described in the public documents of the Company available at [www.sedar.com](http://www.sedar.com).

The Company's forward-looking statements are based on the reasonable beliefs, expectations, and opinions of management on the date of this MD&A (or as of the date they are otherwise stated to be made). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results that were not anticipated, estimated, or intended. There is no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update or revise any forward-looking statements except to the extent required by applicable securities laws in Canada.

## Basis of Consolidation

This MD&A includes the accounts of the Company and its wholly and majority-owned subsidiaries. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. Non-controlling interests in the equity of consolidated subsidiaries are shown separately in the consolidated statement of operations and in the consolidated statement of changes in shareholders' equity. All intercompany balances and transactions are eliminated on consolidation. The information below lists the Company's subsidiaries that are consolidated in the Condensed Interim Consolidated Financial Statements and the ownership interest held as of March 31, 2020 and December 31, 2019.

Legal Entity	Defined as	% Ownership March 31, 2020	% Ownership December 31, 2019	Accounting Method
Cansortium Holdings LLC	Cansortium Holdings	100.00%	100.00%	Consolidation
Cansortium Pennsylvania, LLC	Cansortium Pennsylvania	100.00%	100.00%	Consolidation
Cansortium Puerto Rico, LLC	Cansortium Puerto Rico	100.00%	100.00%	Consolidation
Cansortium Texas, LLC	Cansortium Texas	100.00%	100.00%	Consolidation
Cansortium Canada Holdings Inc.	Cansortium Canada Holdings	100.00%	100.00%	Consolidation
1931074 Ontario Inc.	Cansortium Canada	100.00%	100.00%	Consolidation
Cansortium Canada Servicing, Inc.	Cansortium Canada Servicing	100.00%	100.00%	Consolidation
Fluent Servicing, LLC	Fluent Servicing	100.00%	100.00%	Consolidation
Cansortium Brazil Ltda.	Cansortium Brazil	100.00%	100.00%	Consolidation
Cansortium Australia Pty. Ltd	Cansortium Australia	84.51%	84.51%	Consolidation
Cansortium Health Partners, LLC	Cansortium Health Partners	100.00%	100.00%	Consolidation
Cansortium Florida, LLC	Cansortium Florida	100.00%	100.00%	Consolidation
Cansortium Colombia S.A.S.	Cansortium Colombia	50.00%	100.00%	Equity *
Arcadia EcoEnergies Ltd.	Arcadia EcoEnergies	52.00%	52.00%	Consolidation
Spirit Lake Road Nursery, LLC	Spirit Lake Road Nursery	100.00%	100.00%	Consolidation
16171 Slater Road Investors LLC	16171 Slater Road Investors	100.00%	100.00%	Consolidation
Cansortium Oregon LLC	Cansortium Oregon	100.00%	100.00%	Consolidation
Cansortium Washington, LLC	Cansortium Washington	100.00%	100.00%	Consolidation
Cansortium California LLC	Cansortium California	100.00%	100.00%	Consolidation
Cansortium Michigan LLC	Cansortium Michigan	100.00%	100.00%	Consolidation
Cloud Nine Capital, LLC	Cloud Nine Capital	100.00%	100.00%	Consolidation
Cavern Capital Holdings LLC	Cavern Capital Holdings	100.00%	100.00%	Consolidation
Harvest Park Lot 9 Investors LLC	Harvest Park Lot 9	100.00%	100.00%	Consolidation
Harvest Park Lot 9 Investors No. 2 LLC	Harvest Park Lot 9 No. 2	100.00%	100.00%	Consolidation
Cansortium Property Holdings, Inc.	Cansortium Property Holdings	100.00%	100.00%	Consolidation
Fluent Hemp LLC	Fluent Hemp	100.00%	100.00%	Consolidation
Cansortium Ohio, LLC	Cansortium Ohio	85.00%	85.00%	Consolidation
Cansortium Beverage Company Inc.	Cansortium Beverage Company	100.00%	100.00%	Consolidation
Cansortium International Inc.	Cansortium International	100.00%	100.00%	Consolidation

\* The Company's investment in Cansortium Colombia started to be accounted for as an equity method investment on January 22, 2020, the date on which the Company reduced its ownership of Cansortium Colombia from 100% to 50%.

## Business Overview

All the Company's operations are in one segment, the production and sale of medical cannabis. All revenues for the three months ended March 31, 2020 and 2019 were generated in the United States.

The Company, through its various U.S. subsidiaries, is licensed to produce and sell medical cannabis in Florida, Texas, and is licensed to sell medical cannabis in Pennsylvania. The Company, through its various subsidiaries, is licensed to produce and sell cannabis in Puerto Rico and Canada and is licensed and operates an industrial hemp production facility in Canada. The Company's Colombian subsidiary has also secured licenses to operate a seed bank and to produce and export medical cannabis in Colombia. As stated below, the Company decided to discontinue its operations in Puerto Rico, Canada and Colombia during 2019.

The Company, through its wholly-owned subsidiary Consortium Brazil Ltda., obtained a permit for a Pharmaceutical Industry and Distribution License in Brazil, issued by the National Health Surveillance Agency ("ANVISA"), and has an exclusive distribution agreement with a pharmacy supply company in Brazil, Distribuidora de Medicamentos Santa Cruz Ltda.

In the United States, licensing for medical or recreational cannabis cultivation, production, sale, and use is determined at a state level basis and not federally. Cultivation, sale and use of cannabis is illegal under federal law in the United States pursuant to the U.S. Controlled Substances Act of 1970. Each state which allows the production, sale and/or use of cannabis has its own legislation, rules, regulations, and policies with respect to the licensing of medical or recreational cannabis related activities. The Company believes that its operations are in full compliance with all applicable state and local laws, regulations, and licensing requirements.

In October 2019, the Company's Board of Directors established a special committee comprised of its then three independent directors and engaged financial and legal advisors to assist in developing and implementing a series of strategic reorganization and growth initiatives. The primary goals of these on-going initiatives are:

- to drive sustainable, profitable growth in the Company's core market of Florida by allocating the necessary capital to expand the number of dispensaries in the state, and
- to increase the Company's operational flexibility and liquidity necessary to expand its cultivation and dispensary footprints in the highly attractive markets of Michigan, Texas and Pennsylvania.

During the fourth quarter of 2019, following its comprehensive review of Consortium's corporate structure and management positions, the Board approved the implementation of cost saving initiatives that resulted in more than \$4.5 million of aggregate annualized savings through reductions in the workforce, elimination of senior management positions and reductions in executive management compensation. Also, consistent with its refocused growth strategy, the Company decided to discontinue its operations in Puerto Rico, Canada and Colombia. The Company completed the sale of its Puerto Rican business on April 28, 2020 and completed the sale of its Canadian business on May 29, 2020. Additionally, on January 22, 2020, the Company completed the return to treasury of 4,124,166 shares of Consortium Inc. previously issued to acquire 100% of Consortium Colombia, and thereby reducing its ownership of Consortium Colombia to 50%.

By more effectively deploying its capital to U.S. markets in which it has existing operations and that present actionable near-term opportunities to achieve scale, the Company believes that its refocused strategy is enabling it to make significant progress toward achieving sustainable, profitable growth. The Company has expanded its operations to include 20 Florida dispensaries and has an additional six (6) Florida dispensaries in various stages of construction and regulatory approval that it expects to open during 2020.

Based on operating results through the first quarter of 2020 and its projections for the remainder of the year, the Company currently anticipates full year 2020 revenues of between approximately \$55 million and \$60 million and Adjusted EBITDA of more than \$15 million.

## **Business Overview (Continued)**

### Florida

Most of the Company's existing business takes place in the State of Florida.

Fluent Servicing was formed on July 1, 2015 for the purpose of cultivating, manufacturing, and retailing in the cannabis industry.

Fluent Servicing operates one cultivation and production facility in Winter Garden, FL and operates one cultivation facility in Tampa, FL, producing various products ranging from tinctures, capsules, suppositories, topicals and inhalation vaporizers. The Winter Garden facility is approximately 30,000 sq. ft of cultivation greenhouse, which includes 16,256 sq. ft. of flowering canopy along with 9,000 sq. ft of production and administrative space (collectively, "Winter Garden"). On April 15, 2019, the Company commenced cultivation at its facility in Tampa, Florida. The Tampa facility is approximately 22,000 sq. ft. of indoor cultivation which includes 20,160 sq. ft. of flowering canopy over 6 levels.

As of the date of this MD&A, the Company operates 20 dispensaries throughout the State of Florida. An additional six locations are in various stages of construction and regulatory approval with plans to open during 2020.

In the State of Florida, the Department of Health, Office of Medical Marijuana Use (the "Department") issues licenses to Medical Marijuana Treatment Centers to cultivate, process and sell medical cannabis (referred to as an "MMTC License"). The Company operates under an MMTC License issued to Spirit Lake Road Nursery, LLC, a wholly-owned indirect subsidiary of the Company.

### Texas

The Company owns and operates 1,300 sq. ft. of cultivation space in climate and humidity-controlled C-containers which includes 1,920 sq. ft. of flowering canopy over 2 levels. Currently, the Company only sells in Texas via home deliveries. The Company has rights to expand the cultivation facility up to 400,000 additional sq. ft. as demand requires.

In May 2019, the Texas legislature passed a bill that significantly expanded the Texas Compassionate Use Act. It was subsequently signed into law by the Governor. The new law increases legal access to medical cannabis products containing up to 0.5 percent THC for patients coping with a broader list of chronic medical conditions and diseases including epilepsy, seizure disorders, multiple sclerosis, spasticity, amyotrophic lateral sclerosis, autism, and terminal cancer.

### Pennsylvania

The Company currently operates one (1) dispensary and is licensed to operate up to three (3) dispensaries in the south-central region of Pennsylvania for the sale of medical cannabis only. This dispensing permit allows for the purchase of finished products from permitted processors in the Commonwealth of Pennsylvania.

The Company expects to develop two (2) new dispensaries in the south-central region of Pennsylvania during 2020 that will begin operating in early 2021.

### Michigan

In October 2018, the Company partnered with Green Standard Holdings LLC and Green Standard, Inc. collectively, ("Green Standard") to acquire cultivation, production and future retail dispensary licenses from Green Standard. To date, Green Standard has been issued 12 Class C Cultivation Licenses and has pre-qualification status to receive 12 additional Class C Cultivation Licenses and an operating license to process and a retail license to open up to 8 retail locations in the state. Each Class C Cultivation license allows for the cultivation of up to 1,500 plants. In May 2019, the Company acquired vacant land in order to develop an outdoor cultivation facility with Green Standard. Cultivation began in August 2019 and the first harvest from this Michigan facility started to be sold to wholesale customers during the second quarter of 2020. Current year Michigan cultivation is underway, and harvest of approximately 5,500 plants is expected to occur in late summer.

## **Business Overview (Continued)**

### Discontinued Operations

#### Puerto Rico

The Company discontinued its operations in Puerto Rico during the year ended December 31, 2019, as part of its strategic decision to focus its resources on opportunities in the U.S. cannabis markets. Accordingly, the assets and liabilities associated with its Puerto Rican business are classified as held for sale on the Company's March 31, 2020 and December 31, 2019 financial statements. The sale of the Puerto Rican business closed on April 28, 2020.

#### Canada

During the year ended December 31, 2019, the Company discontinued its Canadian operations in order to reduce operating expenses and focus the Company's capital on the highest-return opportunities in U.S. markets. Accordingly, the assets and liabilities associated with its Canadian business are classified as held for sale on the Company's March 31, 2020 and December 31, 2019 financial statements. The sale of the Canadian business closed on May 29, 2020.

#### Colombia

The Company discontinued its operations in Colombia during the year ended December 31, 2019 in order to reduce operating expenses and focus the Company's capital in U.S. markets. Accordingly, the assets and liabilities associated with its Colombian business are classified as held for sale on the Company's December 31, 2019 financial statements. On January 22, 2020, the Company completed the return to treasury of 4,124,166 shares of Cansortium Inc. previously issued to acquire 100% of Cansortium Colombia, and thereby reducing its ownership of Cansortium Colombia to 50%. The Company's current investment in Cansortium Colombia is classified as investment held for sale on the Company's March 31, 2020 financial statements.

### Products and Brands

The Company's medical cannabis products are offered in oral drops, capsules, suppositories, topicals, syringes, dried flower, pre-rolls and cartridges. All of its products are marketed under the Fluent™ brand name, which was launched in May 2019 to convey the Company's commitment to gaining a deeper understanding of cannabis' potential positive impacts on human health and wellness. Prior to the launch of the Fluent brand the Company had operated under the Knox Medical™ brand.

In Pennsylvania, the Company's product portfolio includes a variety of third-party branded medical cannabis products.

### **COVID-19 Pandemic**

The Company's business could be materially and adversely affected by the outbreak of a widespread epidemic of pandemic or other public health crisis, including the COVID-19 pandemic.

Beginning in February 2020, various U.S. States began to implement progressively restrictive guidelines on social interactions and business operations in an effort to slow the spread of the global COVID-19 pandemic, including the closure of non-essential business. Such restrictive guidelines did not materially impact the Company's operations for the three months ended March 31, 2020, as medical cannabis was deemed one of several essential businesses and all the Company's dispensaries, cultivation and production facilities remained open.

Due to the rapid developments and uncertainty surrounding COVID-19, it is difficult to reliably measure the potential impact of this uncertainty on the Company's future financial position and operating results.

## **Subsequent Events**

The Company has evaluated subsequent events through July 7, 2020, which is the date the Company's condensed interim consolidated financial statements were issued.

On April 28, 2020, the Company completed the sale of certain operational assets of Consortium Puerto Rico to PRICH, including applicable cannabis licenses, in exchange for approximately \$670 in cash and future royalties on sales of Fluent-branded products, commencing on the closing date.

On May 5, 2020, the Company signed a Consulting Agreement with Zola Global Investors ("Zola") pursuant to which Zola will receive one million common shares and three million stock options with a three-year expiration date and exercise price of \$0.255 per share.

On May 19, 2020, the Company amended and restated a prior agreement pursuant to which Consortium Michigan, LLC, the Company's indirect wholly-owned subsidiary, intends to acquire 100% of the outstanding shares of Green Standard, Inc. ("Green Standard"). Under the amended terms, Green Standard shareholders will receive U.S.\$10 million in aggregate consideration to consist of common shares and proportionate voting shares exchangeable into an aggregate of 2,727,723 common shares of the Company, which shall be escrowed until May 15, 2021, plus cash consideration to be generated by profits from Green Standard's Michigan business. The same number of shares of the Company that were previously issued to Green Standard shareholders and subject to vesting conditions have been returned to treasury for cancellation.

On May 29, 2020, the Company completed the sale of its Canadian Subsidiaries. As part of the consideration for the sale of its Canadian Subsidiaries, a total of 1,500,000 common shares were returned to the Company for cancellation.

**Management's Discussion & Analysis of the Company for the three months ended March 31, 2020 and 2019**

**FINANCIAL HIGHLIGHTS**

<b>Financial results</b>	<b>Three months ended</b>		
	<b>March 31, 2020</b>	<b>March 31, 2019</b>	<b>Variance</b>
Revenue	\$ 10,163	\$ 5,528	\$ 4,635
Gross profit	\$ 11,051	\$ 2,950	\$ 8,101
Gross margin	108.7%	53.4%	55.4%
Adjusted gross profit (loss) <sup>(1)</sup>	\$ 6,503	\$ 2,967	\$ 3,536
Adjusted gross margin <sup>(1)</sup>	64.0%	53.7%	10.3%
Selling, general and administrative expenses	\$ 8,648	\$ 15,474	\$ (6,826)
EBITDA <sup>(1)</sup>	\$ (5,330)	\$ (9,142)	\$ 3,811
Adjusted EBITDA <sup>(1)</sup>	\$ 715	\$ (3,420)	\$ 4,135
Net loss	\$ (13,912)	\$ (16,551)	\$ 2,639
Net loss per share (basic)	\$ (0.07)	\$ (0.10)	\$ 0.03
Net loss per share (diluted)	\$ (0.07)	\$ (0.10)	\$ 0.03
<b>Balance Sheet</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>Variance</b>
Total assets	\$ 171,969	\$ 167,066	\$ 4,903
Total long-term liabilities	\$ 85,384	\$ 77,852	\$ 7,532
Total liabilities	\$ 125,092	\$ 119,888	\$ 5,204

**Notes:**

(1) Adjusted gross profit, adjusted gross margin, EBITDA and Adjusted EBITDA are non-IFRS financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS and quarterly results of operations sections below for reconciliation to IFRS.



**QUARTERLY RESULTS OF OPERATIONS (three months ended March 31, 2020 and 2019)**

(all figures in 000's)

	Three months ended		
	March 31, 2020	March 31, 2019	Variance
Revenue, net of discounts	\$ 10,163	\$ 5,528	\$ 4,635
Cost of goods sold	3,660	2,561	1,099
Adjusted gross profit <sup>(1)</sup>	6,503	2,967	3,536
Adjusted gross margin <sup>(1)</sup>	64.0%	53.7%	10.3%
Realized fair value of increments on inventory sold	7,562	1,118	6,444
Unrealized change in fair value of biological assets	(12,110)	(1,101)	(11,009)
Gross profit	11,051	2,950	8,101
Gross margin	108.7%	53.4%	55.4%
Expenses			
General and administrative	3,139	9,654	(6,515)
Share-based compensation	886	604	282
Sales and marketing	3,121	2,917	204
Depreciation and amortization	1,502	2,299	(797)
Total expenses	8,648	15,474	(6,826)
Income (loss) from operations	2,403	(12,524)	14,927
Discontinued operations	(376)	-	(376)
Other expense (income)			
Interest expense, net	3,759	4,317	(558)
Change in fair market value of derivative	1,835	(1,879)	3,714
Loss on Investment in Associate	183	-	183
Loss on debt restructuring	8,065	-	8,065
Other expense	16	1,589	(1,573)
Total other expense	13,858	4,027	9,831
			-
Loss before taxes	(11,079)	(16,551)	5,472
Income taxes	2,833	-	2,833
Net loss	(13,912)	(16,551)	2,639
Net loss attributable to non-controlling interest	-	(270)	270
Net loss attributable to controlling interest	\$ (13,912)	\$ (16,281)	\$ 2,369

(1) Adjusted gross profit and adjusted gross margin are non-IFRS financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS and quarterly results of operations sections below for reconciliation to IFRS

## **Revenue**

Consolidated revenue for the three months ended March 31, 2020 increased 83.8% to \$10,163, compared to \$5,528 for the same period last year. Revenue for the three months ended March 31, 2020 consisted primarily of revenue generated through the company's nineteen Florida dispensaries, including home deliveries, along with revenue from one dispensary in Pennsylvania. Revenue for the three months ended March 31, 2019 consisted primarily of revenue generated through the company's nine Florida dispensaries, including home deliveries, along with revenue from one dispensary in Pennsylvania and one dispensary in Puerto Rico.

## **Gross profit / Adjusted gross profit**

Gross profit for the three months ended March 31, 2020 was \$11,051, or 108.7% of revenue, versus gross profit of \$2,950, or 53.4% of revenue for the same period last year. The increased gross profit and gross margin was primarily due to higher revenues coupled with \$4,548 unrealized gain in fair value of biological assets during the current period, compared with \$17 unrealized loss in fair value of biological assets during the first quarter of 2019, as well as increased cultivation and manufacturing productivity at the Company's expanded Tampa facility, compared with the first quarter of 2019.

Adjusted gross profit for the three months ended March 31, 2020 was \$6,503, or 64.0% of revenue, compared with adjusted gross profit of \$2,967, or 53.7% of revenue for the same period last year. These increases reflect the Company's increased revenues in Florida and increased cultivation and manufacturing productivity at the Company's expanded Tampa facility compared with the first quarter of 2019.

## **Selling, general and administrative expenses**

Consolidated selling, general and administrative (SG&A) expenses for the three months ended March 31, 2020 and 2019 were as follows:

	<b>Three months ended</b>		
	<b>March 31, 2020</b>	<b>March 31, 2019</b>	<b>Variance</b>
General and administrative expenses	\$ 3,139	\$ 9,654	\$ (6,515)
Share-based compensation	886	604	282
Selling and marketing expenses	3,121	2,917	204
Depreciation and amortization	1,502	2,299	(797)
<b>Total expenses</b>	<b>\$ 8,648</b>	<b>\$ 15,474</b>	<b>\$ (6,826)</b>

Consolidated SG&A expenses of \$8,648 for the three months ended March 31, 2020 decreased by \$6,826 compared to the same period last year. This decrease was primarily due to non-recurring initial public offering related expenses incurred during the first quarter of 2019 and the cost savings initiatives implemented during the fourth quarter of 2019, which included reductions in the workforce, elimination of senior management positions and reductions in executive management compensation, as well as, lower depreciation and amortization expense, partially offset by higher share-based compensation expenses and higher selling and marketing expenses to support the Company's expanded Florida dispensary platform.

## ***Selling, general and administrative expenses (continued)***

### ***General and administrative expenses***

As noted above, total general and administrative expenses for the three months ended March 31, 2020 decreased by \$6,515 compared to the same period last year, primarily driven by lower legal and professional fees mainly due to non-recurring expenses incurred in the prior year and lower salaries and benefits associated with workforce optimization.

### ***Share based compensation***

Share based compensation expenses of \$886 increased by \$282 for the three months ended March 31, 2020 compared to \$604 for the same period last year mainly due to higher share vesting expenses activity for shares and options issued for professional services rendered and employee compensation.

### ***Selling and marketing expenses***

Selling and marketing expenses of \$3,121 increased by \$204 for the three months ended March 31, 2020 compared to \$2,917 for the same period last year, primarily reflecting the increased number of Florida dispensaries in operation versus the same period last year.

Selling and marketing expenses as a percentage of revenue was 30.7% for the three months ended March 31, 2020 versus 52.8% for the same period last year.

### ***Discontinued operations***

During the year ended December 31, 2019, the Company discontinued its operations from Consortium Colombia S.A.S, and Consortium Puerto Rico LLC, as well as those for 1931074 Ontario, Inc, Consortium Canada Servicing Inc., Consortium Property Holdings Inc., and Arcadia EcoEnergies, Ltd. (collectively, the "Canadian Subsidiaries").

During the three months ended March 31, 2020, the Company recorded a net gain of \$376 from discontinued operations, primarily driven by the return to treasury of 4,124,166 shares of Consortium Inc. and reduction of the Company's ownership of Consortium Colombia to 50%.

### ***Other expense (income)***

Other expense (income) for the three months ended March 31, 2020 and 2019 were as follows:

	<b>Three months ended</b>		
	<b>March 31, 2020</b>	<b>March 31, 2019</b>	<b>Variance</b>
Interest expense, net	\$ 3,759	\$ 4,317	\$ (558)
Change in fair market value of derivative	1,835	(1,879)	3,714
Loss on investment in associate	183	-	183
Loss on debt restructuring	8,065	-	8,065
Other expense	16	1,589	(1,573)
<b>Total other expense</b>	<b>\$ 13,858</b>	<b>\$ 4,027</b>	<b>\$ 9,831</b>

Total other expense during the three months ended March 31, 2020 was \$13,848, consisting primarily of loss on debt restructuring of \$8,065 associated with the restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing, change in fair market value of derivative liabilities of \$1,835, interest expense of \$3,759, and loss on investment in associate of \$183.

**Other expense (income) (continued)**

Total other expense for the three months ended March 31, 2019 included interest expense of \$4,317, change in fair value of derivative of (\$1,879) and other expense of \$1,589.

On January 16, 2020, the Company completed the restructuring of its existing promissory note issued in connection with the acquisition of Fluent Servicing to eliminate the principal amortization until the new extended maturity date of December 1, 2022 and to defer payment of cash interest until April 1, 2020, in exchange for reducing the price floor per share associated with the 4,400,000 common shares originally issued from \$2.75 to \$0.65 and agreeing to transfer to the seller an additional 14,215,385 common shares that were returned by the Company's founders, subject to a price floor of \$0.65 per share. As a result, the Company recorded a loss of debt restructuring of \$8,065 during the three months ended March 31, 2020.

During the three months ended March 31, 2020, the Company recognized a \$1,835 loss in fair value on revaluation of the derivative liability associated with equity price guarantee instruments from the Fluent Servicing acquisition and revaluation of the derivative liability associated with the Green Standard acquisition equity price guarantee instrument, versus a gain of \$1,879 for the same period last year.

Loss on investment in associate for the three months ended March 31, 2020 was \$183, due to recognition of the loss associated with the Company's investment in Green Standard for the period.

Other expense for the three months ended March 31, 2020 was \$16 versus other expense of \$1,589 for the same period last year.

**EBITDA**

EBITDA is a non-IFRS financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates EBITDA from net income (loss), plus (minus) interest expense (income), plus taxes, plus depreciation and amortization, as follows:

	Three months ended		
	March 31, 2020	March 31, 2019	Variance
Net income (loss)	\$ (13,912)	\$ (16,551)	\$ 2,639
Interest expense	3,759	4,317	(558)
Income taxes	2,833	-	2,833
Depreciation and amortization	1,989	3,092	(1,103)
EBITDA	\$ (5,330)	\$ (9,142)	\$ 3,811

## Adjusted EBITDA

Adjusted EBITDA is a non-IFRS financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. The Company calculates adjusted EBITDA from EBITDA plus (minus) unrealized loss (gain) on embedded derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. The reconciliation from EBITDA to Adjusted EBITDA is as follows:

	Three months ended		
	March 31, 2020	March 31, 2019	Variance
EBITDA	\$ (5,330)	\$ (9,142)	\$ 3,811
Change in fair value of biological assets	(4,548)	17	(4,565)
Change in fair market value of derivative	1,835	(1,879)	3,714
Share based compensation	886	604	282
Discontinued operations	(376)	-	(376)
Loss on debt restructuring	8,065	-	8,065
Other non-recurring expense <sup>(1)</sup>	183	6,980	(6,797)
Adjusted EBITDA	\$ 715	\$ (3,420)	\$ 4,135

(1) Other non-recurring expense for the three months ended March 31, 2019 primarily driven by non-recurring initial public offering expenses.

## HISTORICAL QUARTERLY RESULTS

The following table sets out certain financial information for each of the nine fiscal quarters up to and including the first quarter of 2020. The information has been derived from the Company's consolidated financial statements, which, in management's opinion, have been prepared on a basis consistent with the condensed interim consolidated financial statements for the three months ended March 31, 2020 and 2019.

Quarter ended (\$ in 000's)	Mar-31 2020	Dec-31 2019	Sep-30 2019	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018	Jun-30 2018	Mar-31 2018
Revenue	\$ 10,163	\$ 9,505	\$ 7,387	\$ 6,091	\$ 5,528	\$ 4,900	\$ 2,937	\$ 155	\$ 69
Gross profit	\$ 11,051	\$ 9,382	\$ 2,433	\$ 3,290	\$ 2,951	\$ 9,382	\$ 1,295	\$ 130	\$ 39
Income (loss) from operations	\$ 2,403	\$ (5,795)	\$ (8,084)	\$ (8,070)	\$ (12,524)	\$ (5,795)	\$ (8,084)	\$ (8,070)	\$ (12,524)

The following table sets out certain adjusted pro-forma financial information for each of the nine fiscal quarters up to and including the first quarter of 2020, reflecting the consolidation of Fluent Servicing, which was accounted for under IFRS as an equity method investment until August 15, 2018, the date on which the Company acquired the remaining interest in Knox Servicing and became the sole member.

Quarter ended (\$ in 000's)	Mar-31 2020	Dec-31 2019	Sep-30 2019	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018	Jun-30 2018	Mar-31 2018
Pro-forma revenue	\$ 10,163	\$ 9,505	\$ 7,387	\$ 6,091	\$ 5,528	\$ 4,900	\$ 5,475	\$ 5,133	\$ 3,342
Adjusted pro-forma gross profit	\$ 6,503	\$ 5,731	\$ 4,665	\$ 4,551	\$ 2,968	\$ 9,977	\$ 3,586	\$ 4,398	\$ 2,772
Pro-forma income (loss) from operations	\$ 2,403	\$ (5,795)	\$ (8,084)	\$ (8,070)	\$ (12,524)	\$ (5,795)	\$ (6,303)	\$ 2,151	\$ 266

Pro-forma revenue, adjusted pro-forma gross profit, and Pro-forma income (loss) from operations are non-IFRS financial measures that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Refer to the reconciliation to IFRS section below for reconciliation to IFRS.

## RECONCILIATION TO IFRS

The Company calculates Pro-forma revenue from revenue plus Fluent Servicing revenues for the respective periods through August 15, 2018, Adjusted pro-forma gross profit from gross profit plus Fluent Servicing gross profit before fair value adjustment for the respective periods through August 15, 2018, and Pro-forma income (loss) from operations is calculated from loss from operations plus (minus) Knox Servicing income (loss) from operations for the respective periods through August 15, 2018, as follows:

Quarter ended (\$ in 000's)	Mar-31 2020	Dec-31 2019	Sep-30 2019	Jun-30 2019	Mar-31 2019	Dec-31 2018	Sep-30 2018	Jun-30 2018	Mar-31 2018
Revenue	\$ 10,163	\$ 9,505	\$ 7,387	\$ 6,091	\$ 5,528	\$ 4,900	\$ 2,937	\$ 155	\$ 69
Fluent Servicing revenue	-	-	-	-	-	-	2,538	4,978	3,273
Pro-forma revenue	\$ 10,163	\$ 9,505	\$ 7,387	\$ 6,091	\$ 5,528	\$ 4,900	\$ 5,475	\$ 5,133	\$ 3,342
Gross profit	\$ 11,051	\$ 9,382	\$ 2,433	\$ 3,290	\$ 2,951	\$ 9,382	\$ 1,295	\$ 130	\$ 39
Fluent Servicing gross profit	-	-	-	-	-	-	1,121	6,936	4,577
Pro-forma gross profit	11,051	9,382	2,433	3,290	2,951	9,382	2,416	7,066	4,616
Change in fair value of biologicals	(4,548)	(3,651)	2,232	1,261	17	595	1,170	(2,668)	(1,844)
Adjusted pro-forma gross profit	\$ 6,503	\$ 5,731	\$ 4,665	\$ 4,551	\$ 2,968	\$ 9,977	\$ 3,586	\$ 4,398	\$ 2,772
Loss from operations	\$ 2,403	\$ (5,795)	\$ (8,084)	\$ (8,070)	\$ (12,524)	\$ (5,795)	\$ (5,908)	\$ (2,299)	\$ (1,889)
Fluent Servicing income (loss) from operations	-	-	-	-	-	-	(395)	4,450	2,155
Pro-forma income (loss) from operations	\$ 2,403	\$ (5,795)	\$ (8,084)	\$ (8,070)	\$ (12,524)	\$ (5,795)	\$ (6,303)	\$ 2,151	\$ 266

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2020, the Company had \$4,846 in cash and cash equivalents. The major components of the Company's statements of cash flows for the three months ended March 31, 2020 and 2019 are as follows:

	Three months ended		
	March 31, 2020	March 31, 2019	Variance
Cash and cash equivalents provided by (used in) operating activities	\$ 531	\$ (13,782)	\$ 14,313
Cash and cash equivalents used in investing activities	(1,471)	(2,718)	1,247
Cash and cash equivalents provided by financing activities	3,340	24,197	(20,857)
Effect of foreign exchange on cash and cash equivalents	(70)	136	(206)
Net change in cash and cash equivalents	\$ 2,330	\$ 7,833	\$ (5,503)

### Operating activities

Cash flow provided by operating activities for the three months ended March 31, 2020 was \$531 compared to cash flow used in operating activities of \$13,782 for the same period last year, reflecting the Company's increased revenues and lower operational expenses versus the same period last year.

### Investing activities

Cash flow used in investing activities for the three months ended March 31, 2020 was \$1,471 compared to 2,718 for the same period last year. The decrease of 1,247 in cash used in investing activities was mainly driven by lower purchases of property and equipment associated with investments in new dispensaries in Florida versus the same period last year.

### Financing activities

Cash flow provided by financing activities for the three months ended March 31, 2020 was \$3,340 compared to \$24,197 for the same period last year. The decrease of \$20,857 in cash provided by financing activities was primarily driven by net proceeds of \$4,351 from issuance of notes payables during the first quarter of 2020 partially offset by payment of lease obligations of \$1,064 versus total net proceeds of \$69,344 from the Company's initial public offering and listing on the Canadian Securities Exchange on March 22, 2019 and issuance of notes payables during the first quarter of 2019, partially offset by repayments of notes payable in the amount of \$44,500 mainly related to the acquisition of the remaining interest of Fluent Servicing in October of 2018 and payment of lease obligations of \$647 for the same period last year.

## CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company leases certain business facilities from third parties under lease agreements that specify minimum rentals. The leases expire through 2030 and contain certain renewal provisions. Future minimum lease payments under non-cancelable leases having an initial or remaining term of more than one year are as follows:

<b>For the twelve months period ending March 31,</b>	<b>Scheduled payments</b>
2021	\$ 4,198
2022	4,227
2023	4,197
2024	4,278
2025	4,203
Thereafter	13,094
<b>Total future minimum lease payments</b>	<b>\$ 34,197</b>

## SUMMARY OF OUTSTANDING SHARE DATA

The share capital of the Company is comprised of 96,311,803 common shares, 10,324,925 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 41,434,671 warrants and convertible debt allotments and 7,891,039 stock options as of March 31, 2020.

Earnings per share have been calculated using the weighted average number of shares outstanding during a period on a total outstanding and fully dilutive basis. The potential conversion of warrants, convertible debt, and stock options into common shares have a dilutive effect on earnings per share. The weighted average number of basic and diluted shares are presented in the table below:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Weighted average number of shares - basic	195,071,312	185,593,303
Weighted average warrants	35,947,878	24,339,927
Weighted average convertible debt allotment	18,205,782	12,355,276
Weighted average options	8,131,699	1,181,924
<b>Weighted average number of shares - diluted</b>	<b>257,356,671</b>	<b>223,470,430</b>

## TRANSACTIONS WITH RELATED PARTIES

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For the three months ended March 31, 2020 and 2019, key management personnel compensation consisted of the following:

	<b>For the three months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Salary	\$ 245	\$ 675
All other compensation	173	-
<b>Total</b>	<b>\$ 417</b>	<b>\$ 675</b>

### ***CRITICAL ACCOUNTING ESTIMATES***

The preparation of the Company's condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

Critical judgments, estimates and assumptions that have the most significant effect on the amounts recognized on the condensed interim consolidated financial statements for the three months ended March 31, 2020 and 2019 have been set out in Note 2 of the audited annual consolidated financial statements for the years ended December 31, 2019 and 2018.

### ***FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT***

The Company's financial instruments consist of cash and cash equivalents, note receivable, accounts payables and accrued liabilities, derivative liability, lease obligations and notes payable. See note 20 "Financial instruments and financial risk management" to the condensed interim consolidated financial statements for the three months ended March 31, 2020 and 2019 for the assessment of related risks.



## UNITED STATES REGULATORY ENVIRONMENT

### Federal Regulatory Environment

In accordance with the Canadian Securities Administrators (“CSA”) Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* (“**Staff Notice 51-352**”) dated February 8, 2018, and Staff Notice 51-357 – *Staff Review of Reporting Issuers in the Cannabis Industry* dated October 10, 2018 below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved through its subsidiaries, in the cannabis industry. In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

On January 4, 2018, former U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice (“DOJ”) federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the memorandum authored in August 2013 by then Deputy Attorney General, James Cole (collectively the “**Cole Memorandum**”). The Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of the Cole Memorandum and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandum was never legally binding; however, the revocation removed the DOJ’s guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum’s guidelines should not be a prosecutorial priority. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Former U.S. Attorney General Jeff Sessions resigned on November 7, 2018 and on February 14, 2019, William Barr was sworn in as Attorney General. To date, Mr. Barr has not provided a clear policy directive for the United States as it pertains to the enforcement of federal laws on state-legal marijuana-related activities.

As an industry best practice, despite the recent rescission of the Cole Memorandum, the Company intends to abide by the following to ensure compliance with the guidance provided by the Cole Memorandum:

- ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
- ensure that its cannabis related activities adhere to the scope of the licenses obtained (for example: in the states where cannabis is permitted for recreational adult use, the products are only sold to individuals who meet the requisite age requirements);
- implement policies and procedures to ensure that cannabis products are not distributed to minors;
- implement policies and procedures to ensure that revenue is not distributed to criminal enterprises, gangs or cartels;
- implement adequate inventory tracking systems and necessary procedures to ensure that such compliance system is effective in tracking inventory and preventing diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;
- ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, and is not engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and to prevent impaired driving.

In addition, the Company conducts background checks to ensure that certain individuals working at its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company also conducts ongoing reviews of its cannabis business activities, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises.

As of March 31, 2020, 99% of the Company's assets and were and continue to be exposed to U.S. marijuana related activities. By these measures 99% of the Company's assets and operations were related to U.S. marijuana related activities.

#### *U.S. Legal Advice*

The Company and its subsidiaries are in compliance with U.S. state laws and the related licensing frameworks. The Company and its subsidiaries use reasonable commercial efforts to confirm, through the advice of U.S. counsel in each state in which the Company operates, the monitoring and review of its business practices, and regularly monitoring of changes to U.S. federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and regulatory frameworks. Other than as disclosed herein, the Company's U.S. based subsidiaries have not received non-compliance orders, citations or notices of violation that may have an impact on such entity's licenses, business activities and/or operations. The Company's U.S. based subsidiaries have obtained legal advice regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.

#### *Compliance Program*

The Company's Vice President of Legal and Compliance oversees, maintains, and implements the compliance program and personnel in conjunction with the Chief Legal Officer and Executive Vice President - Operations. The Vice President of Legal and Compliance and Chief Legal Officer serve as liaisons to the various state and local regulators at all times. It is the responsibility of the Compliance Director to work with all operational department heads to ensure operations and employees strictly comply with applicable laws, regulations and licensing requirements to ensure that the operations do not endanger the health, safety, or welfare of the communities that the Company operates in. The Vice President of Legal and Compliance works closely with the operations and security directors to ensure that operations and all employees are following and complying with the Company's written standard operating procedures.

The Company has developed a uniform set of standard operating procedures that establish minimum standards and requirements for operations in each market, encompassing operational aspects such as cultivation, manufacturing, packaging of product, the handling of confidential or personal information and method by which an employee may dispense cannabis to an authorized individual. Upon the Company's entry into a new market, the Vice President of Legal and Compliance and Chief Legal Officer work with each department director to adapt these uniform policies into a unique set of operating procedures for each respective market. It is these respective market-specific procedures that are based upon the regulatory requirements unique to each such market.

Working with the operations, human resources, and security departments, the Vice President of Legal and Compliance oversees training for all employees, including on the following topics:

- compliance with applicable state and local laws
- safe cannabis use
- dispensing procedures
- cultivation and processing procedures
- security and safety policies and procedures
- inventory control
- point of sale and seed to sale tracking software
- quality control
- transportation procedures

The Company's compliance protocols emphasize quality assurances, as evidenced by its efforts to obtain GMP (or similar) certification in its facilities, security and inventory controls, as well as patient safety. These efforts ensure strict monitoring of cannabis and inventory in all phases of the process. Only authorized and properly trained employees are permitted to access any seed-to-sale system or dispense cannabis to an authorized individual.

The Company is in compliance with U.S. state law and the related licensing framework in each state in which the Company has active marijuana operations, being Florida, Pennsylvania, and Texas, as well as Michigan. The Company uses reasonable

commercial efforts to ensure that its business is in compliance with applicable licensing requirements and the regulatory frameworks enacted by Florida, Pennsylvania, Michigan and Texas, through the duties of the Vice President of Legal and Compliance and Chief Legal Officer, who monitor and review the Company's business practices and changes to U.S. Federal enforcement priorities.

The Vice President of Legal and Compliance and Chief Legal Officer monitor regularly any and all compliance notifications from various state regulators, to the extent they occur; and ensure timely response and corrective action if necessary. No notifications have been received other than as set out below. The Company maintains comprehensive recordkeeping and retention procedures for any action involving the products it cultivates, processes, and/or dispenses. In addition, the Company maintains accurate records of all activities it is licensed to conduct in each market and does so in compliance with applicable laws and regulations. Adherence to the Company's compliance protocols in each market is mandatory and ensures that all operations remain compliant with the regulation(s) set forth by the applicable regulatory bodies, as well as all requirements of licensure.

Each facility is monitored and supervised under a uniform set of policies and procedures that also requires daily, weekly, monthly and quarterly reporting on applicable activities that occur at each facility. These reports, completed by or under the supervision of the applicable facility manager include: germination, cloning, plant destruction, harvest details, extraction rates, product formulation details, logistics, transportation, delivery, sales and customer complaints. Each facility also utilizes a password protected, role based, seed to sale inventory tracking and reporting software system. The Vice President of Legal and Compliance Director, Chief Legal Officer and Executive Vice President - Operations all have full administrative access to the seed-to-sale tracking and reporting software. The seed-to-sale software program gives the Vice President of Legal and Compliance real time access to the source data, which reports all daily activities of each subsidiary in order to conduct independent analysis and verification of the standard reports submitted by each subsidiary.

In addition to the standard reports submitted by each facility and the seed-to-sale software program access, the Vice President of Legal and Compliance and staff perform scheduled and unscheduled site visits and audits of each facility. The scheduled and unscheduled site visits and audits are performed at least quarterly and are used to verify source data on all reported subsidiary activities, debrief and interview key employees, and conduct an overall review of the operating conditions of all Company facilities.

## **State Regulatory Environment**

### **Florida**

#### ***Regulatory Framework***

Florida regulates medical marijuana as set forth in the Florida Constitution, Florida Statutes, implementing regulations of the Florida Administrative Code, and other applicable laws. The Florida Department of Health, Office of Medical Marijuana Use is responsible for oversight and implementation of medical marijuana laws in Florida.

#### ***Florida Statutes***

Section 381.986, Florida Statutes, governs the cultivation, processing, dispensing, and ordering of marijuana for medical use in Florida by qualified Florida-licensed physicians for medical use by qualified patients. Under this law, "medical use" means "acquisition, possession, use, delivery, transfer, or administration of marijuana authorized by a physician certification." Effective March 18, 2019, smoking is a legally permitted route of administration of medical marijuana.

Only Florida-licensed physicians who underwent the required training can recommend marijuana for medical use in Florida. Qualified patients are required to be permanent Florida residents and must be diagnosed with one of the qualifying medical conditions set forth in Section 381.986(2), Florida Statutes.

## **Chapter 64-4, Florida Administrative Code**

As required by Florida Statutes, the Florida Department of Health implemented regulations governing the use of medical marijuana in the state, including the licensing of businesses to cultivate, process, and dispense medical marijuana to qualified patients. These regulations are found in Chapter 64-4, Florida Administrative Code.

### ***Rulemaking Implementation of Amendment 2 and Section 381.986 Revision***

Following changes to the original medical marijuana statute in Section 381.986, Florida Statutes, the Florida Department of Health announced proposed changes to Chapter 64-4 and the creation of Regulations 1-1.01, 1-1.02, 2-1.01, and 2-1.02 to implement the new terms, procedures, and application procedure for medical marijuana treatment center licenses. The procedure for modifying and developing these rules, as applicable, is governed by Florida's Administrative Procedures Act, Chapter 120, Florida Statutes. Required public notices and public hearings have occurred and continue to occur.

### ***U.S. Attorney Statements***

To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Florida.

### ***Licensing and Compliance in Florida***

In Florida, the Department of Health administers and maintains the state's medical marijuana program pursuant to the Florida Constitution and Statutes. Florida law currently requires each Medical Marijuana Treatment Centre ("MMTC") license holder to be vertically integrated, which requires the license holder to control all aspects of the operations from "seed to sale". Additionally, as a condition to becoming operational, each MMTC license holder is statutorily required to comply with all disclosures made to obtain the license. All cannabis must be grown in an enclosed, secure building, or an enclosure within a building with adequate security requirements to prevent diversion. Each facility must also have armed security on site. All MMTC license holders must track cannabis from "seed to sale," accounting for all disposed and dispensed cannabis and related materials in the process. All buildings and vehicles must have extensive security features, surveillance capabilities, and the ability to maintain records of all activities as well as video surveillance maintenance. Only qualified patients or registered caregivers can be dispensed cannabis pursuant to a qualified physician's active recommendation; all of which must be confirmed prior to dispensation. The MMTC license holder must maintain approved waste management and sanitation policies and be certified by a nationally accredited certifying body as compliant with Good Manufacturing Practices at all of its processing facilities. All routes of administration and must be approved by Department of Health before they may be offered for dispensing to patients. Furthermore, as part of the application process, each License holder must outline how it intends to maintain Health Insurance Portability and Accountability Act ("HIPAA") compliant guidelines. Because HIPAA is a federal law that does not apply to activities relating to the sale of cannabis, MMTCs must also comply with the privacy requirements of Section 381.987, Florida Statutes, which mandate that all patient information in the state's registry be kept confidential, with limited exceptions for law enforcement, government investigations, and pre-approved research activities. Additionally, all employees must pass state mandated criminal history background screenings.

To ensure compliance with state requirements, the Company has implemented a robust compliance program based on its standard operating procedures, which have been adapted to comply with the requirements of Florida law. Regular audits are conducted of all sales, deliveries and video surveillance to ensure dispensation are conducted appropriately to identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process to ensure appropriate chain of custody from initial plant to finished product being dispensed to the patient. This ensures that in the event of a recall event, the company has the capability of identifying the suspect products back to the original batch from the greenhouse. Additionally, a visitor request form must be approved for all non-employee guests visiting any facility, and such guests must be logged upon entry and wear a visitor ID badge at all times. All deliveries to patients or dispensaries are conducted in unmarked, nondescript vehicles, which maintain interior and exterior security and surveillance features as well as global positioning system tracking capabilities. Patients and caregivers, furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring, but must pass a drug screening as well. The company also utilizes either cloud-based

or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, the State has the capability to make announced or unannounced inspections of any facility, therefore ensuring compliance on a daily basis is a top priority.

### ***Licenses***

The Company, through its direct and indirect wholly-owned subsidiaries, is licensed to cultivate, process and sell medical cannabis and to own and operate individual dispensary locations as well as deliver product directly to customer's homes throughout the State of Florida.

In the State of Florida, the Department issues licenses to produce and sell medical cannabis i.e. the MMTC License (formerly a Dispensing Organization License) and as of December 31, 2019 has issued twenty-two (22) such licenses, of which the Company holds one (1).

The MMTC License held by the Company's subsidiary in Florida expired on June 13, 2020. The Company submitted the application for renewal of the license on May 13, 2020

### ***Dispensary Requirements***

MMTCs may dispense up to a 70-day supply of medical marijuana in non-smokable forms or up to a 35-day supply in smokable forms at any time. The MMTC employee responsible for dispensing has a unique employee ID number that is used in a mandated point of sale program utilized to track all interactions with patients and/or their caregivers. The MMTC employee must verify that: (i) the patient and/or caregiver (if applicable) must each have an approved registration in the State Registry as well as the proper identification card issued by the State of Florida; (ii) the quantity and type of cannabis being ordered must match the physician directed registry entry; and (iii) the physician directed amount has not already been dispensed at another dispensary of any MMTC. No patient under the age of 18 may receive dispensed product. For patients under 18 years of age, product may only be dispensed to a properly registered and identified caregiver of the patient. In every case, the MMTC must be able to provide a record of activity in the registry indicating: (i) the date, time, quantity and form of cannabis dispensed; (ii) the delivery device for the cannabis that was dispensed; and (iii) the name and identification number of the individual that received the dispensed product. At all times, the MMTC employee must ensure the privacy of information in regards to the patient records as required by Florida legislation and applicable privacy laws.

### ***Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities***

Adequate outdoor lighting is required from dusk to dawn for all MMTC. 24-hour per day video surveillance is required and all MMTCs must maintain at least a rolling 45-day period that is made available to law enforcement upon demand. Alarm systems must be active at all items for all entry points and windows. Interior spaces must also have motion detectors and all cameras must give unobstructed view of key areas. Panic alarms must also be available for employees to be able to signal authorities when needed.

In dispensaries, the MMTC must provide a waiting area with a sufficient seating area. There must also be a minimum of one private consultation/education room for the privacy of the patient(s) and their caregiver (if applicable). The MMTC may only provide dispensing duties between 7:00 am and 9:00 pm. All active products must be kept in a secure location within the dispensary and only empty packaging may be kept in the general area of the dispensary. No product or delivery devices may be on display in the waiting area.

An MMTC must at all times provide secure and logged access for all cannabis materials. This includes approved vaults or locked rooms. There must be at least two employees of the MMTC or an approved security provider on site at all times. All employees must wear proper identification badges and visitors must be logged in and wear a visitor badge while on the premises. The MMTC has a 24-hour period in which it must report any suspected activity of loss, diversion, or theft of cannabis materials.

### ***Transportation Requirements***

When transporting cannabis to dispensaries or to patients for delivery, a manifest must be prepared, and transportation must be done using an approved vehicle. The cannabis must be stored in a separate, locked area of the vehicle and at all times there must be two people in a delivery vehicle. During deliveries, one person must remain with the vehicle. The delivery employees

must at all times have identification badges. The manifest for all deliveries must be generated by the State approved tracking software. The manifest must include the following information: (i) departure date and time; (ii) name, address and license number of the originating MMTC; (iii) name and address of the receiving entity; (iv) the quantity, form and delivery device of the cannabis; (v) arrival date and time; (vi) the make, model and license plate of the delivery vehicle; and (vii) the name and signatures of the MMTC delivery employees. These manifests must be kept by the MMTC for inspection for up to three (3) years. During the delivery, a copy of the manifest is also provided to the recipient.

### ***Department Inspections***

The Florida Department of Health conducts announced and unannounced inspections of MMTC's to determine compliance with the laws and regulations. The Department also must inspect an MMTC upon receiving a complaint or notice that the MMTC has dispensed cannabis containing mold, bacteria, or other contaminants that may cause an adverse effect to humans or the environment. The Department conducts at least a biennial inspection of each MMTC to evaluate the MMTC's records, personnel, equipment, security, sanitation practices, and quality assurance practices.

## **Pennsylvania**

### ***Regulatory Framework***

Pennsylvania legalized medical marijuana when it adopted the Pennsylvania Medical Marijuana Act in 2016. It is found in Chapters 1131 through 1210 of the Pennsylvania Code. Most of the regulation of Pennsylvania's medical marijuana program to date has occurred under this law and through temporary regulations, all of which are summarized below under the heading "Pennsylvania Medical Marijuana Act."

### ***Pennsylvania Medical Marijuana Act***

Under the act, the term "medical marijuana" refers to marijuana obtained for a certified medical use by a Pennsylvania resident with a serious medical condition. A serious medical condition includes 17 different conditions including cancer, HIV-positive status, AIDS, several neurological conditions and issues, and severe intractable pain. Medical marijuana is limited by statute in Pennsylvania to the following forms:

- Pill.
- Oil.
- Topical forms, including gel, creams, or ointments.
- A form medically appropriate for administration by vaporization or nebulization, excluding dry leaf or plant form.
- Tincture.
- Liquid.

Under the Pennsylvania Medical Marijuana Act, patients who are residents of the commonwealth and have a serious medical condition as certified by a physician will be able to obtain medical marijuana at dispensaries that are located in the commonwealth and have a validly-issued permit from the Pennsylvania Department of Health. A "caregiver" who is designated by the patient and is registered with the Pennsylvania Department of Health will be able to obtain medical marijuana from a dispensary located in the commonwealth that has a validly- issued permit from the Pennsylvania Department of Health in order for the caregiver to deliver medical marijuana to the patient. The Pennsylvania Medical Marijuana Act provides for issuance of permits to grower/processors, dispensaries, and clinical registrants.

A dispensary may only dispense medical marijuana to a patient or caregiver in an indoor, enclosed, secure facility as approved by the Pennsylvania Department of Health. The dispensary must have an approved operation plan that includes appropriate safety, security, surveillance, inventory tracking, record keeping, and maintenance measures. It may only dispense medical marijuana to a patient or caregiver who presents a valid identification card to an employee at the facility who is authorized to dispense medical marijuana at the facility. The dispensary must employ and have on-site at all times the facility is open for dispensing a physician, pharmacist, physician assistant or certified registered nurse practitioner who has undergone required medical marijuana training. This medical professional may consult with patients regarding proper dosage and administration of

medical marijuana for their condition if the referring physician has not done so. The entire transaction must be tracked in the commonwealth's seed-to-sale electronic tracking system.

### ***Recent case law and U.S. Attorney Statements***

David J. Freed, appointed to serve as U.S. Attorney for the Middle District of Pennsylvania on November 15, 2017, has previously stated, "I don't need a study to tell me marijuana is a gateway drug. We in law enforcement have to clean up the mess." He has also previously stated that he believes the law should not change.<sup>1</sup> Scott W. Brady, appointed to serve as U.S. Attorney for the Western District of Pennsylvania on December 14, 2017, has also indicated that his office would vigorously enforce federal law.

### ***Licensing and Compliance in Pennsylvania***

In Pennsylvania Department of Health administers and maintains the state's medical marijuana program pursuant to Pennsylvania laws and regulations. Pennsylvania awards permits separately for the growing and processing of medical marijuana, as well as for the dispensing of medical marijuana. As a dispensary permit holder, Pennsylvania law requires the use of state-mandated point of sale and product tracking software to log and record all inventory and sales activities, as well as all patient interactions. All marijuana must be stored with adequate security requirements to prevent diversion. Each facility must also have security measures to prevent unauthorized access and video surveillance; as well as the ability to maintain records of all activities. Only qualified patients or registered caregivers can be dispensed cannabis pursuant to a qualified physician's active recommendation; all of which must be confirmed prior to dispensation. Each dispensary must also employ a licensed pharmacist, doctor or registered nurse practitioner. Additionally, all employees must pass state mandated criminal history background screenings.

The Company's subsidiary in Pennsylvania, Consortium Pennsylvania, LLC ("**Consortium Pennsylvania**") currently holds and operates the dispensary permit in the Commonwealth of Pennsylvania. To ensure compliance with state requirements, Consortium Pennsylvania has implemented a robust compliance program based on its standard operating procedures. which have been adapted to comply with the requirements of Pennsylvania law. Regular audits are conducted of all sales, deliveries, and video surveillance to ensure dispensation are conducted appropriately and identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process and are inspected upon receipt from any grower/processor facility. This ensures appropriate chain of custody of finished product being dispensed to the patient and that defective products are returned back to grower/processors and not placed into inventory. Additionally, all visitor request forms must be approved for all non-employee guests visiting any facility, and such guests must be logged upon entry and wear a visitor ID badge at all times. All deliveries must be scheduled in advance and received at the dispensary within an enclosed area outside of the public view or access. Patients and caregivers, furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring but must pass a drug screening as well. The company also utilizes either cloud-based or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, the state has the capability to make announced or unannounced inspections of any facility, therefore ensuring compliance on a daily basis is a top priority.

### ***Permits***

The original dispensary permit was issued on June 29, 2017 and was valid for one year. The permit was renewed on June 26, 2018 on June 26, 2019 and again on June 25, 2020, with an expiration date of June 29, 2021. The permit allows the holder to operate up to three (3) dispensaries in the southcentral region of Pennsylvania (i.e. Adams, Bedford, Blair, Cumberland, Dauphin, Franklin, Fulton, Huntingdon, Juniata, Lebanon, Mifflin, Perry and York counties).

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<sup>1</sup> [http://www.pennlive.com/midstate/index.ssf/2012/11/marijuana\\_legalization\\_in\\_penn.html](http://www.pennlive.com/midstate/index.ssf/2012/11/marijuana_legalization_in_penn.html)

### ***Dispensary Requirements***

A dispensary may only dispense medical marijuana products to a patient or caregiver who presents a valid identification card to an employee at the facility who is authorized to dispense medical marijuana products at the facility. Prior to dispensing medical marijuana products to a patient or caregiver, the dispensary shall: (1) Verify the validity of the patient or caregiver identification card using the electronic tracking system; and (2) Review the information on the patient's most recent certification by using the electronic tracking system to access the Pennsylvania Department of Health's database. The following requirements apply: (i) if a practitioner sets forth recommendations, requirements or limitations as to the form and/or dosage of a medical marijuana product on the patient certification, the medical marijuana product dispensed to a patient or caregiver by a dispensary must conform to those recommendations, requirements or limitations; (ii) if a practitioner does not set forth recommendations, requirements or limitations as to the form or dosage of a medical marijuana product on the patient certification, the physician, pharmacist, physician assistant or certified registered nurse practitioner employed by the dispensary and working at the facility shall consult with the patient or the caregiver regarding the appropriate form and dosage of the medical marijuana product to be dispensed; and (iii) the dispensary shall update the patient certification in the electronic tracking system by entering any recommendation as to the form or dosage of medical marijuana product that is dispensed to the patient. Prior to the completion of the transaction, the employee conducting the transaction at the dispensary shall prepare a receipt of the transaction and file the receipt information with the Pennsylvania Department of Health utilizing the electronic tracking system. A dispensary shall provide a copy of the receipt to the patient or the caregiver, unless the patient or the caregiver declines the receipt. The receipt must include all of the following information: (1) the name, address and any permit number assigned to the dispensary by the Pennsylvania Department of Health; (2) the name and address of the patient and, if applicable, the patient's caregiver. (3) the date the medical marijuana product was dispensed; (4) any requirement or limitation noted by the practitioner on the patient's certification as to the form of medical marijuana product that the patient should use; and (5) the form and the quantity of medical marijuana product dispensed.



## ***Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities***

Pennsylvania dispensaries must have security and surveillance systems, utilizing commercial-grade equipment, to prevent unauthorized entry and to prevent and detect an adverse loss. The security and surveillance systems must include all of the following:

(1) A professionally-monitored security alarm system that includes the following: (i) coverage of all facility entrances and exits; rooms with exterior windows, exterior walls, roof hatches or skylights; storage rooms, including those that contain medical marijuana and safes; and the perimeter of the facility; (ii) a silent security alarm system signal, known as a duress alarm, generated by the entry of a designated code into an arming station in order to signal that the alarm user is being forced to turn off the system; (iii) an audible security alarm system signal, known as a panic alarm, generated by the manual activation of a device intended to signal a life-threatening or emergency situation requiring law enforcement response; (iv) a silent alarm signal, known as a holdup alarm, generated by the manual activation of a device intended to signal a robbery in progress; (v) an electrical, electronic, mechanical or other device capable of being programmed to send a pre-recorded voice message requesting dispatch, when activated, over a telephone line, radio or other communication system to a law enforcement, public safety or emergency services agency; (vi) a failure notification system that provides an audible, text or visual notification of any failure in the systems. The failure notification system must provide by telephone, e-mail or text message an alert to a designated security person within the facility within 5 minutes after the failure; (vii) smoke and fire alarms; (viii) auxiliary power sufficient to maintain security and surveillance systems for at least 48 hours following a power outage; (ix) ability to ensure all access doors are not solely controlled by an electronic access panel to prevent locks from becoming released during a power outage; and (x) motion detectors.

(2) A professionally monitored security and surveillance system that is operational 24 hours per day, 7 days per week and records all activity in images capable of clearly revealing facial detail. The security and surveillance system must include all of the following: (i) fixed camera placement that allows for a clear image of all individuals and activities in and around the following: (A) any area of a facility where medical marijuana products are loaded or unloaded into or from transport vehicles; (B) entrances to and exits from a facility. Entrances and exits must be recorded from both indoor and outdoor vantage points; (C) rooms with exterior windows, exterior walls, roof hatches or skylights and storage rooms, including those that may contain medical marijuana products and safes; (D) five feet from the exterior of the perimeter of a facility; (E) all limited access areas; (ii) auxiliary power sufficient to maintain security and surveillance systems for at least 48 hours following a power outage; (iii) the ability to operate under the normal lighting conditions of each area under surveillance; and (iv) the ability to immediately produce a clear, color, still photograph in a digital format that meets the requirements of this subsection.

(3) The ability to display the date and time clearly and accurately. The date and time must be synchronized and set correctly and may not significantly obscure the picture.

(4) The ability to record and store all images captured by each surveillance camera for a minimum of two (2) years in a format that may be easily accessed for investigative purposes. The recordings must be kept: (i) at the facility: (A) in a locked cabinet, closet or other secure place to protect it from tampering or theft; (B) in a limited access area or other room to which access is limited to authorized individuals; and (ii) at a secure location other than the location of the facility if approved by the Pennsylvania Department of Health.

(5) A security alarm system that is separate from the facility's primary security system covering the limited access area or other room where the recordings are stored. The separate security alarm system must meet the same requirements as the facility's primary security alarm system. The following apply regarding the inspection, servicing or alteration of, and the upgrade to, the dispensary facility's security and surveillance systems: (i) the systems shall be inspected and all devices tested once every year by a qualified alarm system vendor and a qualified surveillance system vendor, as approved by the Pennsylvania Department of Health; (ii) the dispensary shall conduct maintenance inspections once every month to ensure that any repairs, alterations or upgrades to the security and surveillance systems are made for the proper operation of the systems; (iii) the dispensary shall retain at the facility, for at least four (4) years, records of all inspections, servicing, alterations and upgrades performed on the systems and shall make the records available to the Pennsylvania Department of Health and its authorized agents within two (2) business days following a request; (iv) in the event of a mechanical malfunction of the security or surveillance system that the dispensary anticipates will exceed a 4-hour period, the dispensary shall notify the Pennsylvania Department of Health immediately and, with Pennsylvania Department of Health approval, provide alternative security measures that may include closure of the facility; and (v) The dispensary shall designate an employee to continuously monitor the security and surveillance systems at the facility.

(6) Records retention: (i) if a dispensary has been notified in writing by the Pennsylvania Department of Health or its authorized agents, law enforcement, or other Federal, State or local government officials of a pending criminal or administrative investigation for which a recording may contain relevant information, the dispensary shall retain an unaltered copy of the recording for four (4) years or until the investigation or proceeding is closed or the entity conducting the investigation or proceeding notifies the dispensary that it is not necessary to retain the recording, whichever is longer; (ii) a dispensary shall install commercial-grade, non-residential steel doors and door locks on each room where medical marijuana products are stored and on each external door of the facility. Keys or key codes for all doors shall remain in the possession of designated authorized individuals; (iii) during all nonworking hours, all entrances to and exits from the facility must be securely locked; (iv) a dispensary shall have an electronic back-up system for all electronic records; (v) a dispensary shall install lighting to ensure proper surveillance inside and outside of the facility; and (vi) a dispensary shall limit access to a room in a facility containing security and surveillance monitoring equipment to persons who are essential to maintaining security and surveillance operations including, Federal, State and local law enforcement, security and surveillance system service employees, the Pennsylvania Department of Health or its authorized agents, and other persons with the prior written approval of the Pennsylvania Department of Health. The following requirements apply: (1) a dispensary shall make available to the Pennsylvania Department of Health or the Pennsylvania Department of Health's authorized agents, upon request, a current list of authorized employees and service employees or contractors who have access to any security and surveillance areas; and (2) a dispensary facility shall keep security and surveillance rooms locked at all times and may not use these rooms for any other purpose or function.

#### *Storage Requirements*

A dispensary shall have separate and locked limited access areas for storage of medical marijuana products that are expired, damaged, deteriorated, mislabeled, contaminated, recalled, or whose containers or packaging have been opened or breached until the medical marijuana products are returned to a grower/processor, destroyed or otherwise disposed of as required under § 1151.40 (relating to management and disposal of medical marijuana waste). A dispensary shall maintain all storage areas in a clean and orderly condition and free from infestation by insects, rodents, birds and pests.

#### *Pennsylvania Department of Health Inspections*

The Pennsylvania Department of Health may conduct announced or unannounced inspections or investigations to determine the medical marijuana organization's compliance with its permit. An investigation or inspection may include an inspection of a medical marijuana organization's site, facility, vehicles, books, records, papers, documents, data, and other physical or electronic information.

#### **Texas**

##### **Regulatory Framework**

Texas initially limited the scope of authorization of cannabis for medical purposes to the cultivation, processing, and dispensing of low-THC cannabis prescribed to epilepsy patients.

In May 2019, the Texas legislature passed a bill that significantly expanded the Texas Compassionate Use Act. It was subsequently signed into law by the Governor. The new law increases legal access to medical cannabis products containing up to 0.5 percent THC for patients coping with a broader list of chronic medical conditions and diseases including epilepsy, a seizure disorder, multiple sclerosis, spasticity, amyotrophic lateral sclerosis, autism and terminal cancer.

##### **Compassionate Use Act**

The Texas Legislature enacted the Texas Compassionate Use Act, found in Chapter 169 of the Texas Occupations Code and Chapter 487 of the Texas Health and Safety Code, in 2015. The Texas Compassionate Use Act directs the Texas Department of Public Safety ("DPS") to create a secure registry of Texas-licensed physicians who are authorized to treat qualifying conditions by prescribing low-THC cannabis to qualified, registered patients who have been diagnosed with epilepsy, a seizure disorder, multiple sclerosis, spasticity, amyotrophic lateral sclerosis (ALS), autism, terminal cancer, or an incurable neurodegenerative disease. In addition, the bill required DPS to license at least three dispensing organizations by September 1, 2017, should they meet the requirements. The license authorizes the organizations to cultivate, process and dispense low-THC cannabis to prescribed patients.

The act defines low-THC cannabis as:

the plant *Cannabis Sativa L.*, and any part of that plant or any compound, manufacture, salt, derivative, mixture, preparation, resin, or oil of that plant that contains:

- (A) not more than 0.5 percent by weight of tetrahydrocannabinols; and
- (B) not less than 10 percent by weight of cannabidiol.

Under the act, medical use of low-THC cannabis means “ingestion by a means of administration other than by smoking of a prescribed amount of low-THC cannabis by a person for whom low-THC cannabis is prescribed.”

### ***Administrative Rules***

DPS adopted the rules implementing the Texas Compassionate Use Act in 2017. These rules, the Compassionate Use/Low-THC Cannabis Program Administrative Rules, are found in 37 Texas Administrative Code 1, Chapter 12. They specify licensing requirements and standards that licensees must satisfy for a variety of subjects, including building design and construction, records, testing, production (including limitations on the use of pesticides and other products that could harm patient health), packaging, labeling, restrictions on eligible persons who can receive low-THC cannabis, criminal history disqualifiers for licensees and their employees, sanitation, and waste disposal.

All low-THC cannabis must be grown in an enclosed, secure building, or an enclosure within a building with adequate security requirements to prevent diversion. Licensees must track low-THC cannabis from “seed to sale,” accounting for all disposed and dispensed low-THC cannabis and related materials in the process. All licensee buildings and vehicles must have extensive security features, surveillance capabilities, and the ability to maintain records of all activities. All licensees must confirm that patients are properly registered and that prescriptions for low-THC cannabis were properly submitted before completing a sale.

Production is limited under the rules; DPS will only issue sufficient licenses to provide the epileptic population of Texas with the most current scientifically accepted dosage. The amount of production permitted is recalculated every year as provided in the rules. As of September 30, 2019, DPS has issued three (3) dispensing organization licenses: The Company’s subsidiary in Texas was licensed on September 1, 2017 and holds one (1) of the three (3) issued licenses.

### ***U.S. Attorney Statements***

To the knowledge of management of the Company, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Texas.

### ***Licensing and Compliance in Texas***

In Texas the Department of Public Safety administers the state’s compassionate use program. State law currently requires each license holder to be vertically integrated, which requires the license holder to control all aspects of the operations from “seed to sale”. State law requires strict limits on THC content which subsequently requires regular testing and maintenance of records. All low-THC cannabis must be grown in an enclosed, secure building, or an enclosure within a building with adequate security requirements to prevent diversion. Licensees must track low-THC cannabis from “seed to sale,” accounting for all disposed and dispensed low-THC cannabis and related materials in the process. All licensee buildings and vehicles must have extensive security features, surveillance capabilities, and the ability to maintain records of all activities as well as video surveillance maintenance. Each facility must also maintain armed security on site. All licensees must confirm that patients are properly registered and that prescriptions for low-THC cannabis were properly submitted before completing a sale. Department of Public Safety also maintains production and dosage limitations which are re-evaluated annually to comport with the needs of the applicable patient population. Additionally, all employees must pass state mandated criminal history background screenings.

The Company’s subsidiary in Texas currently holds and operates a Dispensing Organization license in Texas. To ensure compliance with state requirements, the Company has implemented a robust compliance program based on its standard operating procedures which have been adapted to comply with the requirements of Texas law. Regular audits are conducted of all sales, deliveries and video surveillance to ensure dispensation are conducted appropriately and identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process to ensure appropriate chain of custody from initial plant to finished

product being dispensed to the patient. This ensures that in the event of a recall event, the company has the capability of identifying the suspect products back to the original batch from the greenhouse. Additionally, a visitor request form must be approved for all non-employee guests visiting any facility, and such guests must be logged upon entry and wear a visitor ID badge at all times. All deliveries to patients or dispensaries are conducted in unmarked, nondescript vehicles which maintain interior and exterior security and surveillance features, as well as global positioning system tracking capabilities. Patients and caregivers, furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring but must pass a drug screening as well. The company also utilizes either cloud-based or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, the state has the capability to make announced or unannounced inspections of any facility, therefore ensuring compliance on a daily basis is a top priority.

### ***Licenses***

In March of 2017, the Company's subsidiary in Texas applied for and then obtained a Dispensing Organization License from the Department of Public Safety on September 1, 2017. This license allows the Company's subsidiary in Texas to cultivate and produce cannabis as well as operate a dispensary at the cultivation site. The license also allows for home delivery of the product. The license was renewed on September 1, 2019 and expires on September 1, 2021. The Company's subsidiary in Texas holds one (1) of the three (3) licenses issued by the Department of Public Safety in Texas (as of September 30, 2019).

### ***Dispensary Requirements***

The State of Texas allows each Dispensing Organization to operate one retail dispensary located where they cultivate and manufacture low-THC medical cannabis. As we do not operate a dispensary currently, all dispensations are through our home delivery program. Prior to making a home delivery, Dispensing Organizations must verify a patient has an active order in Texas' Compassionate Use Registry of Texas (CURT) System.

### ***Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities***

The cultivation and processing facility has a security guard present 24 hours a day, 7 days per week who monitors the security cameras and provides access to the main gate and signs in all visitors. The facility has a security fence around the perimeter of the property and a second fence around the immediate cultivation and production campus. There is a video surveillance system that has 360-degree views of the interior and exterior of the facility including the fence perimeter. All cannabis products are stored in a secured storage room with limited access and video surveillance. The cannabis product is stored in a secured vault and cash is stored in a separate cash vault in the secured storage room. Security records are maintained including building access, visitor logs, video recordings, and transportation trip plans.

Staff may not allow access to the facility's cultivation, processing, and/or product storage areas by unauthorized individuals or to the public unless they are escorted at all times. All cultivation of low-THC cannabis shall take place in an enclosed, secured building, or an enclosure within a building that provides reasonably adequate protection against the diversion of low-THC cannabis or raw materials used in or by-products created by the production or cultivation of low-THC cannabis. Staff must limit access to each area to the minimum number of individuals or employees necessary for the licensee's activities, designate an individual or a limited number of individuals with responsibility for each area where a controlled item is cultivated, processed, dispensed, produced, or stored, and control entry into the area for authorized personnel only. Access to the enclosed, locked area is limited to a licensee, director, manager or registered employee when acting in his or her official capacity.

The facility has an alarm system capable of continuously monitoring the regulated premises for fire and intrusion by means of camera recording, door switches, motion sensors, and fire and smoke detectors. The camera monitoring system is capable of recording at least 90 days of footage to an external hard drive. All cameras have a battery back-up.

### ***Transportation Requirements***

Any vehicle used by a dispensing organization for the transportation of low-THC cannabis must have a vehicle security system and a securely attached and locked container within the vehicle. It is the responsibility of the licensee to ensure that only authorized registered employees have access to the locked secure container within the vehicle. Prior to transportation of any product, a licensee shall complete a trip plan that includes: (1) the name of the registrant responsible for the transportation; (2) the date and start time of the trip; (3) the anticipated route of transportation and destination; and (4) a detailed invoice or log of the specific type of product and amount to be transported. Promptly following transportation, the licensee shall enter the end time of the trip and any changes to the trip plan, including any changes to the amount of product delivered to the location.

### ***Department Inspections***

The Department of Public Safety performs weekly inspections of the facility. All requested records are given onsite or electronically as requested.

On January 17, 2019, the Company's subsidiary in Texas received a notice of violation from the Texas Department of Public Safety Regulatory Services Division for failure to adequately respond to the Department's requests for records on inventory and testing at its cultivation facility, in violation of Texas law. On February 1, 2019, the Department issued a violation remediation letter confirming that the matter had been resolved to its satisfaction and that no further action would be taken.

### **Risks Specifically Related to the United States Regulatory System**

The Company operates in a new industry which is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such 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 Company's business incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, 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 Company and, therefore, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company and which cannot be predicted, such as changes to government regulations, including those relating to taxes and other government levies which may be imposed. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

**The Company's subsidiaries are expected to continue to derive a portion of their revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law.** While the Company's and its applicable subsidiaries' business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. The Company is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions. Currently, the Company and its subsidiaries are directly engaged in the manufacture and possession of cannabis in the medical cannabis marketplace in the United States.

**The enforcement of relevant laws is a significant risk.**

Over half of the states in the United States have enacted comprehensive legislation to regulate the sale and use of medical cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the *United States Controlled Substances Act* of 1970. As such, cannabis-related practices, or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future operations and investments of the Company in the United States. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future operations and investments in the United States.

For the reasons set forth above, the Company's existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in the United States and Canada.

On February 8, 2018, following discussions with the CSA and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**TMX MOU**") with Aequitas NEO Exchange Inc., the Canadian Securities Exchange, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX 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 United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the 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 United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Shares through the facilities of a stock exchange.

The operations of the Company and its subsidiaries are, and will continue to be, subject to evolving regulation by governmental authorities. The Company's and its subsidiaries' operations are directly in the medical cannabis industry in the United States, where local state law permits such activities. The legality of the production, extraction, distribution and use of cannabis differs among North American jurisdictions.

The Company's and its subsidiaries' operations have been focused in states that have legalized the medical use of cannabis. Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. Some U.S. states have legalized recreational use of cannabis. However, the U.S. federal government has not enacted similar legislation for medical or recreational cannabis. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

Additionally, there can be no assurance 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. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. 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 state laws are repealed or curtailed, the Company's businesses would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business, and its investments.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the CSA published Staff Notice 51-352 setting out the

CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. 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. The Company views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

The Company's and its subsidiaries' current or future operations in the medical and recreational cannabis industry are likely illegal under the applicable federal laws of the United States. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company or its subsidiaries. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under United States federal law. Although the Company's and its subsidiaries' activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company and its subsidiaries of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company or any subsidiary. Any such proceedings brought against the Company may adversely affect the Company's and its subsidiaries' operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States 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 Company and its subsidiaries, including their reputations and ability to conduct business, their holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of any publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Many factors could cause the Company's actual results, performances, and achievements to differ materially from those expressed or implied by the forward-looking statements, including without limitation, the following factors:

- the activities of the Company and its subsidiaries are subject to evolving regulation that is subject to changes by governmental authorities in Canada, the U.S. and internationally and such authorities could impose restrictions on the Company's and its subsidiaries' ability to operate;
- third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's and its subsidiaries' cannabis business activities;
- the Company's ability to repatriate returns generated from operations and investments in the U.S. may be limited by anti-money laundering laws;
- under Section 280E of the Internal Revenue Code, certain normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, certain of the subsidiaries will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable, business may in fact operate at a loss after taking into account its income tax expenses. There is no certainty that the Company and the subsidiaries will not be subject to Section 280E of the Internal Revenue Code in the future, and accordingly, there is no certainty that the impact that Section 280E of the Internal Revenue Code has on the Company's margins will ever be reduced;

- federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's or any subsidiary's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company or any subsidiaries will be able to maintain its existing accounts or obtain new accounts in the future; and
- although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

***The Company's and its subsidiaries in the United States are subject to applicable anti-money laundering laws and regulations.***

The Company and its subsidiaries are subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States, Canada and internationally. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a chequing account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, FinCEN issued a memorandum on February 14, 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal enforcement priorities (the "**FinCEN Memorandum**"). The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to and incorporates supplementary Cole Memorandum guidance issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the United States Controlled Substances Act on the same day.

Notwithstanding former Attorney General Sessions' revocation of the Cole Memorandum, the status of the FinCEN Memorandum has not been affected, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the Cole Memorandum and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memorandum. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

The Company and its subsidiaries' operations, and any proceeds thereof, are considered proceeds of crime due to the fact that cannabis remains illegal federally in the United States. This restricts the ability of the Company and its subsidiaries to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while the Company has no current intention to declare or pay dividends on its shares in the foreseeable future, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

*U.S. Federal trademark protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance.*

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the Controlled Substances Act, the benefit of certain federal laws and protections that may be available to most businesses, such as federal trademark protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property in the United States, whether on a federal, state, or local level.



### *Ability to Access Private and Public Capital*

The Company has historically relied on access to private and public capital in order to support its continuing operations and the Company expects to continue to rely almost exclusively on the capital markets to finance its business in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and is not legal pursuant to U.S. federal law, Canadian based issuers involved in the U.S. cannabis industry have been successful in completing public financings. However, there is no assurance the Company will be successful, in whole or in part, in raising funds in the future, particularly if the U.S. federal authorities change their position toward enforcing the United States Controlled Substances Act of 1970. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate U.S. federal laws.

### *Service Providers*

As a result of any adverse change to the approach in enforcement of United States cannabis laws, adverse regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, third party service providers to the Company could suspend or withdraw their services, which are necessary for the Company's operations. Such suspension or withdrawal by such third-party service providers may have a material adverse effect on the Company's business.

### *Enforceability of 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 at the federal level in the United States, judges in multiple states have previously refused to enforce contracts for the repayment of money when the loan was used in connection with activities that violate federal law, even where there was no violation of state law. It is not certain that the Company will be able to legally enforce contracts it enters into if necessary. The Company cannot be assured that it will have a remedy for breach of contract, and such lack of a remedy could have a material adverse effect on the Company's business.

### *Admissibility to the U.S.*

Admissibility into the United States for those individuals involved with cannabis remains uncertain since the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law.

U.S. Customs practices continue to evolve and U.S. Customs and Border Protection ("**CBP**") released a statement on October 11, 2018 (the "**CBP Statement**") confirming that CBP enforces the laws of the United States and U.S. laws have not changed following Canada's legalization of marijuana. Requirements for international travelers wishing to enter the United States are governed by and conducted in accordance with U.S. federal law, which supersedes state laws. Although medical and recreational marijuana may be legal in some U.S. States and Canada, the sale, possession, production and distribution of marijuana or the facilitation of the aforementioned remain illegal under U.S. federal law. Consequently, crossing the border or arriving at a U.S. port of entry in violation of this law may result in denied admission, seizure, fines, and apprehension.

The CBP Statement also stated that CBP officers are thoroughly trained on admissibility factors and the *Immigration and Nationality Act*, which broadly governs the admissibility of travelers into the United States. Determinations about admissibility and whether any regulatory or criminal enforcement is appropriate are made by a CBP officer based on the facts and circumstances known to the officer at the time. Generally, any arriving alien who is determined to be a drug abuser or addict, or who is convicted of, admits having committed, or admits committing, acts which constitute the essential elements of a violation of (or an attempt or conspiracy to violate) any law or regulation of a State, the United States, or a foreign country relating to a controlled substance, is inadmissible to the United States.

The CBP Statement then continued to state that a Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry will generally be admissible to the U.S. However, if a traveler is found to be coming to the U.S. for reason related to the marijuana industry, they may be deemed inadmissible.

*The Company's and its subsidiaries' operations in the United States may be subject to heightened scrutiny.*

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical and recreational adult use cannabis under the *Cannabis Act* (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 46 states, plus the District of Columbia, that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the United States and as such, may be in violation of federal law in the United States.

Since 2014, the United States Congress has passed appropriations bills which included provisions to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law (currently the "**Leahy Amendment**", but also referred to as the Rohrabacher-Farr Amendment).

The Leahy Amendment was set to expire with the 2018 fiscal year on September 30, 2018 ("**2018 Fiscal Year**"), however, Congress approved a nine-week continuing resolution from the 2018 Fiscal Year (the "**Continuing Resolution**"). The Continuing Resolution has the purpose of providing ongoing and consistent protection for the medical cannabis industry until December 7, 2018. Congress has been negotiating the 2019 Fiscal Year appropriations since February 2018. The much relied upon appropriations protecting the medical cannabis industry were renewed in both the House and Senate versions of the 2019 Fiscal Year Appropriations bills, with the expectation that the language will be included in the final 2019 Fiscal Year Appropriations Bill. However, it should be noted that there is no assurance that the final 2019 Fiscal Year Appropriations Bill will include appropriations protecting the medical cannabis industry. Until Congress agrees on the 2019 Fiscal Year Appropriations Bill, Congress may pass additional continuing resolutions from the 2018 Fiscal Year, which resolutions would provide ongoing and consistent protection for the medical cannabis industry.

On December 22, 2018, Congress failed to pass the 2019 Fiscal Year Appropriations Bill, including the Leahy Amendment, causing a shutdown of the federal government. During a federal government shutdown, certain "nonessential" governmental programs are stalled; however, federal law enforcement and prosecution actions are exempted from furlough, thus Drug Enforcement Administration agents and federal prosecutors can operate without any restriction otherwise imposed by the spending bill regarding interference with the cannabis industry. Accordingly, during a shutdown, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis business that are otherwise compliant with state law.

On January 25, 2019, President Trump ended the government shutdown but announced that he may shutdown the government again on February 15, 2019 if, by that time, Congress has not agreed on the final 2019 Fiscal Year Appropriations Bill which includes sufficient funding for a border wall between the United States and Mexico. On February 15, 2019, President Trump avoided another government shutdown and signed the 2019 Fiscal Year Appropriations Bill which included the Leahy Amendment, extending its application until the end of the 2019 fiscal year on September 30, 2019. There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in a future budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government would have the authority to prosecute individuals for violations of the law before it lacked funding under the five (5) year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the

appropriations protections only apply to medical cannabis operations and provides no protection against businesses operating in compliance with a state's recreational cannabis laws.

#### *Regulatory Action and Approvals from the Food and Drug Administration*

The Company's cannabis-based products are supplied to patients diagnosed with certain medical conditions. However, the Company's cannabis-based products are not approved by the Food and Drug Administration ("**USFDA**") as "drugs" or for the diagnosis, cure, mitigation, treatment, or prevention of any disease. Accordingly, the USFDA may regard any promotion of the cannabis-based products as the promotion of an unapproved drug in violation of the Federal Food, Drug and Cosmetic Act ("**FFDCA**").

In recent years, the USFDA has issued letters to a number of companies selling products that contain CBD oil derived from industrial hemp warning them that the marketing of their products violates the FFDCA. USFDA enforcement action against the Company could result in a number of negative consequences, including fines, disgorgement of profits, recalls or seizures of products, or a partial or total suspension of the Company's production or distribution of its products. Any such event could have a material adverse effect on the Company's business, prospects, financial condition, and operating results.

#### *Re-classification of Cannabis in and Removal of Industrial Hemp from the Controlled Substances Act in the United States*

The USFDA is responsible for ensuring public health and safety through regulation of food, drugs, supplements, and cosmetics, among other products, through its enforcement authority pursuant to the FFDCA. USFDA's responsibilities include regulating the ingredients as well as the marketing and labeling of drugs sold in interstate commerce.

If cannabis, THC or CBD derived from cannabis is re-categorized as a Schedule II or lower controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be improved; however, rescheduling cannabis, THC or CBD derived from cannabis may materially alter enforcement policies across many federal agencies, primarily the USFDA. Because cannabis is federally illegal to produce and sell, and because it has no federally recognized medical uses, the USFDA has historically deferred enforcement related to cannabis to the DEA; however, the USFDA has enforced the FFDCA with regard to industrial hemp-derived products, especially CBD derived from industrial hemp, sold outside of state-regulated cannabis businesses. If cannabis, THC or CBD derived from cannabis were to be rescheduled to a federally controlled, yet legal, substance, FDA would likely play a more active regulatory role. Further, in the event that the pharmaceutical industry directly competes with state-regulated cannabis businesses for market share, as could potentially occur with rescheduling, the pharmaceutical industry may urge the DEA, FDA, and others to enforce the Controlled Substances Act and FFDCA against businesses that comply with state but not federal law.

On December 28, 2018, the Agricultural Improvement Act of 2018 (commonly known as the "**2018 Farm Bill**") was signed into law. The 2018 Farm Bill, among other things, removed industrial hemp and its cannabidiols, including CBD derived from industrial hemp, from the Controlled Substances Act and will amend the Agricultural Marketing Act of 1946 to allow for industrial hemp production and sale in the United States. Under the Farm Bill, industrial 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 percent on a dry weight basis." The U.S. Department of Agriculture will promulgate regulations for the industrial hemp industry, the timing of which cannot be assured. Additionally, the 2018 Farm Bill does not legalize CBD derived from "marihuana" (as such term is defined in the Controlled Substances Act of 1970), which is and will remain a Schedule I controlled substance under the Controlled Substances Act of 1970. It is not yet known what role the USFDA will have in regulating industrial hemp and CBD derived from industrial hemp.

The potential for multi-agency enforcement post-rescheduling of cannabis and post-removal of industrial hemp from the Controlled Substances Act of 1970 could threaten or have a materially adverse effect on the operations of existing state-legal cannabis businesses, including the Company.

The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.

### ***GOING CONCERN DISCLOSURE***

The Company's condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due for the foreseeable future.

The Company has recorded a net loss of \$13,912 and a positive cash flows from operations of \$531 during the three months ended March 31, 2020 and, as of that date, had an accumulated deficit in the amount of \$125,289. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

To date, the Company has been successful in obtaining enough funding for operating and capital requirements primarily through equity and debt financings. The ability of the Company to continue as a going concern is dependent upon its ability to achieve profitable operations and renegotiate existing financings. While the Company has been effective in raising financing in the past, there is no assurance that it will be able to successfully obtain additional financing as needed. These financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported amounts of expenses and classifications on the statement of financial position that would be necessary if the going concern assumption was not appropriate.