



DIXIE BRANDS INC.

Annual Information Form

For the financial year ended December 31, 2018

Dated: June 21, 2019

Dixie Brands Inc. (the "Company") derives revenues substantially from the cannabis industry in certain states of the United States, which industry is illegal under U. S. federal law. The Company is indirectly involved (through its subsidiaries and licensees) in the cannabis and hemp oil industry in the U.S. where local state laws permit such activities. Currently, its subsidiaries and licensees are directly engaged in the manufacture, possession, use, sale or distribution of cannabis and hemp oil in the recreational and medicinal cannabis market in the states of California, Colorado, Maryland, Nevada, Michigan and Oklahoma.

The U.S. federal government regulates drugs through the Controlled Substances Act (21 U.S.C § 811) including cannabis. Cannabis is classified as a Schedule I drug. Under U.S. 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 under medical supervision. The U.S. Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication.

In the U.S., marijuana is largely regulated at the state level. State laws regulating cannabis are in direct conflict with the federal Controlled Substances Act. Although certain states authorize, medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation and transfer of cannabis and any related drug paraphernalia is illegal. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On January 4, 2018, U.S. Attorney General Jeff Sessions issued a memorandum to U.S. district attorneys which rescinded previous guidance from the U.S. Department of Justice specific to cannabis enforcement in the U.S., including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, U.S. federal prosecutors have been given discretion in determining whether to prosecute cannabis related violations of U.S. federal law.

There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdiction. Unless and until the U.S. Congress amends the Controlled Substances Act with respect to medical and/or adult-use cannabis, there is a risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the business of the Company, results of operations, financial condition and prospects would be materially adversely affected. See "*Risk Factors*" of this Annual Information Form for additional information.

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 Canadian Securities Administrators published a staff notice (Staff Notice 51-352) setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff Notice 51-352 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.

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NOTICE TO READER

In this annual information form (the "AIF"), unless otherwise noted or the context indicates otherwise, "Dixie", the "Company", "we", "us" and "our" refer to Dixie Brands Inc. and its subsidiaries. All financial information in this AIF is prepared in Canadian dollars and using International Financial Reporting Standards. Unless otherwise indicated, all references to "US\$" in this AIF refer to United States dollars and all references to "C\$" in this AIF refer to Canadian dollars. The information contained herein is dated as of June 21, 2019, unless otherwise stated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The information provided in this AIF, including information incorporated by reference, may contain "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities legislation. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company (or its predecessors) that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words.

Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on current expectations and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the regulation of the medical and recreational marijuana industry in the United States, Canada, Australia, New Zealand, Latin America and other countries in which the Company may carry on its business;
- the ability of the Company to obtain meaningful consumer acceptance and a successful market for its Products on a national and international basis at competitive prices;
- the ability of the Company to develop and maintain an effective sales network;
- success of the Company in forecasting demand for its Products or services;
- the ability of the Company to maintain pricing and thereby maintain adequate profit margins;
- the ability of the Company to achieve adequate intellectual property protection;
- the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest; and

- other risks described in this AIF and described from time to time in documents filed by the Company with Canadian securities regulatory authorities.

The forward-looking statements contained herein are based on certain key expectations and assumptions, including that: (i) there will be no material adverse competitive or technological change in condition of the Company's business; (ii) there will be a demand for the Company's Products that the Company has accurately forecast; and (iii) there will be no material adverse change in the Company's operations, business or in any governmental regulation affecting the Company or its suppliers.


With respect to the forward-looking statements contained herein, although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements as no assurance can be given that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to: the availability of sources of income to generate cash flow and revenue; the dependence on management and directors; risks relating to additional funding requirements; due diligence risks; exchange rate risks; risks relating to non-controlling interests in certain underlying businesses; potential conflicts of interest and potential transaction and legal risks.

Consequently, all forward-looking statements made in this AIF and other documents of the Company are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Company. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on the Company's behalf may issue. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation.

INDUSTRY AND OTHER STATISTICAL INFORMATION

This AIF includes market share, industry and other statistical information that the Company has obtained from independent industry publications, government publications, market research reports and other published independent sources. Such publications and reports generally state that the information contained therein has been obtained from sources believed to be reliable. Although the Company believes these publications and reports to be reliable, it has not independently verified any of the data or other statistical information contained therein, nor has it ascertained or validated the underlying economic or other assumptions relied upon by these sources. The Company does not intend, and undertakes no obligation, to update or revise any such information or data, whether as a result of new information, future events or otherwise, except as, and to the extent required by applicable securities laws.

TRADEMARKS AND TRADE NAMES

The Dixie family of word marks including, but not limited to, "DIXIE ELIXIRS & EDIBLES", "DIXIE MINTS", "DIXIE TONICS", "SYNERGY", "ACESO WELLNESS", "THERABIS", the  logo, as well as trade secret recipes and Product manufacturing know-how, are exclusively owned by the Company. Solely for convenience, trademarks, trade names and service marks used by Dixie and referred to in this AIF will appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that Dixie or its applicable subsidiaries will not assert, to the fullest extent under applicable law, its rights to these trademarks, trade names and service marks.

DEFINITIONS

The following is a glossary of certain general terms used in this AIF. Words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders.

"**Academy**" means Academy Explorations Limited, a corporation incorporated under the laws of Ontario, as it existed prior to the Amalgamation and the Name Change.

"**Academy Shares**" means the common shares of Academy, as they existed prior to the Amalgamation.

"**Affiliate**" means a corporation that is affiliated with another corporation as described below. A corporation is an "Affiliate" of another corporation if:

- (a) one of them is the subsidiary of the other; or
- (b) each of them is controlled by the same Person.

"**AIF**" means this annual information form of the Company dated June 21, 2019 prepared pursuant to Part 6 of National Instrument 51-102 *Continuous Disclosure Obligations*.

"**Amalco**" means Dixie Brands Acquisition Inc., which was a wholly-owned subsidiary of Academy incorporated under the laws of Delaware for the purpose of carrying out the Amalgamation.

"**Amalgamation**" means the three-cornered amalgamation and securities exchange among Academy, Amalco and USA Inc. pursuant to which Amalco and USA Inc. merged to form OpCo under the name Dixie Brands (USA), Inc. and USA Securities were exchanged for securities of the Company.

"**Amalgamation Agreement**" means the definitive agreement entered into between Academy, Amalco, and USA Inc. in respect of the Amalgamation.

"**Amalgamation Effective Date**" means November 27, 2018.

"**Associate**" when used to indicate a relationship with a Person, means:

- (a) an issuer of which the Person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the issuer;
- (b) any partner of the Person;
- (c) any trust or estate in which the Person has a substantial beneficial interest or in respect of which a Person serves as trustee or in a similar capacity; or
- (d) in the case of a Person who is an individual:
 - (i) that Person's spouse or child, or
 - (ii) any relative of the Person or of his spouse who has the same residence as that Person.

"**AUMA**" has the meaning set out in "Regulatory Overview".

"**AustraliaCo**" has the meaning set out in "Description of the Business".

"**Auxly**" has the meaning set out in "Description of the Business".

"**BCC**" has the meaning set out in "Regulatory Overview".

"**BSA**" has the meaning set out in "Regulatory Overview".

"**CannaSecurity**" has the meaning set out in "Directors and Officers".

"**CBD**" has the meaning set out in "Description of the Business".

"**CDS**" has the meaning set out in "Risk Factors".

"**Coattail Agreement**" has the meaning set out in "Description of Capital Structure".

"**Cole Memo**" has the meaning set out in "Regulatory Overview".

"**Consolidation**" means the consolidation of all of the issued and outstanding Academy Shares on the basis of one (1) new Academy Share for every four (4) issued and outstanding Academy Shares.

"**Company**" means Dixie Brands Inc.

"**Company's Board of Directors**" means the board of directors of the Company.

"**Control**" A corporation is "**controlled**" by a Person if:

- (a) voting securities of the corporation are held, other than by way of security only, by or for the benefit of that Person; and
- (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the corporation.

A Person beneficially owns securities that are beneficially owned by:

- (a) a corporation controlled by that Person; or
- (b) an Affiliate of that Person or an Affiliate of any corporation controlled by that Person.

"**CSA**" means the United States Controlled Substances Act (21 U.S.C § 811).

"**CSE**" means the Canadian Securities Exchange.

"**CSE Policies**" means the rules and policies of the CSE in effect as of the date hereof.

"**CUA**" has the meaning set out in "Regulatory Overview".

"**Curio**" has the meaning set out in "Description of the Business".

"**Cypress**" has the meaning set out in "Description of the Business".

"**DBPN**" has the meaning set out in "Description of the Business".

"**Dixie IP**" has the meaning set out in "General Development of the Business".

"**Edible**" has the meaning set out in "Description of the Business".

"**FDA**" means the United States Federal Drug Administration.

"**FinCEN**" has the meaning set out in "Regulatory Overview".

"**Indus**" has the meaning as set out in "Description of the Business".

"**Internal Revenue Code**" means U.S. Title 26 – Internal Revenue Code (I.R.C. § 61 (2006)).

"**Incentive Plan**" means the equity incentive plan adopted by the Company under which officers, employees, directors and consultants may be granted a variety of incentives, including stock options, stock grants and non-equity tracking awards.

"**IRS**" means the Internal Revenue Service, the U.S. tax collection agency which administers the Internal Revenue Code enacted by the U.S. Congress.

"**ITA**" means the Income Tax Act (Canada) including all regulations promulgated thereunder, as may be amended from time to time.

"**Khiron**" has the meaning as set out in "Description of the Business".

"**LARA**" has the meaning set out in "Regulatory Overview".

"**Leahy Amendment**" has the meaning set out in "Regulatory Overview".

"**Left Bank**" has the meaning as set out in "Description of the Business".

"**Management HoldCo**" means Dixie Brands SPV, LLC, a Colorado limited liability company representing the interests of management and senior employees of the Company.

"**Management Options**" means the 500,000 options to purchase USA Shares at a price of US\$20.00 granted to management and certain employees of USA Inc. that were exchanged for NPV Shares pursuant to the Amalgamation.

"**MAUCRSA**" has the meaning set out in "Regulatory Overview".

"**MCRSA**" has the meaning set out in "Regulatory Overview".

"**MED**" has the meaning set out in "Regulatory Overview".

"**Meeting**" has the meaning set out in "General Development of the Business".

"**METRC**" has the meaning set out in "Regulatory Overview".

"**Michigan Cannabis Regulations**" has the meaning set out in "Regulatory Overview".

"**Michigan Qualified Purchaser**" has the meaning set out in "Regulatory Overview".

"**Michigan Registry ID**" has the meaning set out in "Regulatory Overview".

"**MMFLA**" has the meaning set out in "Regulatory Overview".

"**MMMA**" has the meaning set out in "Regulatory Overview".

"**MTA**" has the meaning set out in "Regulatory Overview".

"**Name Change**" means the change of the Company's name from "Academy Explorations Limited" to "Dixie Brands Inc."

"**Nevada DOT**" has the meaning set out in "Regulatory Overview".

"**NP 46-201**" means National Policy 46-201 – Escrow for Initial Public Offerings promulgated by the Canadian Securities Administrators.

"**NPV Shares**" means the 500,000 non-participating voting shares of the Company entitling each holder thereof to 100 votes per NPV Share at any meeting of the shareholders of the Company.

"**OBCA**" means the Business Corporations Act (Ontario).

"**OMMA**" has the meaning set out in "Regulatory Overview".

"**OpCo**" means the resulting corporation from the merger of Amalco and USA Inc. named Dixie Brands (USA), Inc., organized under the laws of Delaware, which is a wholly-owned operating subsidiary of the Company.

"**Operating Companies**" means a manufacturing or distribution company that is licensed within its territory to manufacture or produce cannabis-related Products that has entered into a license agreement with the Company.

"**Options**" means the outstanding options issued by the Company subsequent to the Amalgamation to acquire SVS.

"**Person**" means any individual, corporation, company, partnership, unincorporated association, trust, joint venture, governmental body or any other legal entity whatsoever.

"**Products**" means hemp-based, cannabinoid and THC-infused products.

"**Qualified Financing**" means a financing whereby USA Inc. raised US\$12 million or more in working capital from and after April 1, 2018, through the issuance of USA Shares or convertible promissory notes to accredited investors based upon a pre-money valuation of USA Inc. of US\$60 million or more.

"**RTO**" means a reverse takeover transaction.

"**Section 280E**" has the meaning set out in "Risk Factors".

"**seed-to-sale**" has the meaning set out in "Regulatory Overview".

"**Shareholders**" means the shareholders of Academy prior to the Amalgamation and the shareholders of the Company subsequent to the Amalgamation, as the context requires.

"**SSW**" has the meaning set out in "Description of the Business".

"**Staff Notice 51-352**" has the meaning set out in "Regulatory Overview".

"**SVS**" means the issued and outstanding subordinate voting shares in the capital of the Company subsequent to the Amalgamation.

"**THC**" means Tetrahydrocannabinol, one of the 113 cannabinoids identified in cannabis and its principal psychoactive constituent.

"**Therabis**" has the meaning set out in "Description of the Business".

"**T&T**" has the meaning set out in "Regulatory Overview".

"**USA Inc.**" means Dixie Brands, Inc., a corporation formed under the laws of Delaware, and a predecessor to OpCo.

"**USA Shares**" means the issued and outstanding common shares in the capital of USA Inc.

"**USA Options**" means the options issued and outstanding in the capital of USA Inc.

"**USA Securities**" means USA Shares, USA Options and USA Warrants.

"**USA Warrants**" means the common share purchase warrants to acquire USA Shares.

"**Warrants**" means the SVS purchase warrants of the Company subsequent to the amalgamation to acquire SVS.

CORPORATE STRUCTURE

Name, Address and Incorporation

The Company is incorporated under the *Business Corporations Act* (Ontario). The head office of the Company is located at 4990 Oakland Street, Denver, Colorado 80239 and the registered office is located at 3400 One First Canadian Place, Toronto, Ontario M5X 1B4. The Company is a reporting issuer in the Province of Ontario.

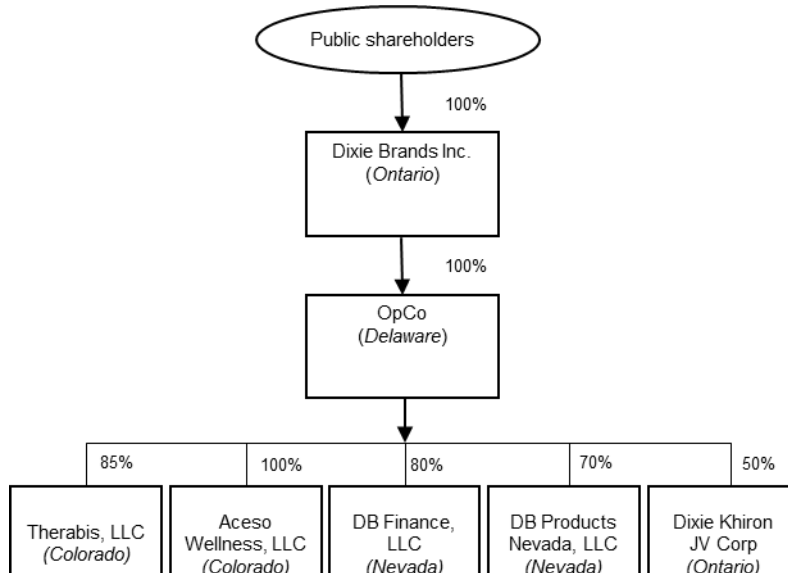
The Company was registered and incorporated under the *Business Corporations Act* (Ontario) under the name Boeing Holdings & Explorations Limited on July 20, 1970, following an amalgamation between Artex Holdings & Explorations Limited and Boeing Holdings & Explorations Limited. On January 6, 1972, the Company changed its name to Consolidated Boeing Holdings & Explorations Limited and on April 10, 1980, the name was changed again to Academy Explorations Limited.

On November 27, 2018, the Company completed an RTO transaction with USA Inc. and Amalco, as described below.

On September 28, 2018, the Company entered into the Amalgamation Agreement with USA Inc. and Amalco, a wholly-owned subsidiary of the Company incorporated for the purposes of the RTO transaction. Pursuant to the Amalgamation Agreement, Amalco merged with USA Inc., forming a Delaware-incorporated operating company named Dixie Brands (USA), Inc. ("OpCo"). Through this amalgamation, OpCo became a wholly-owned subsidiary of the Company, which is a reporting issuer in Ontario. As part of the RTO, the Company changed its name to Dixie Brands Inc. The RTO transaction is described in more detail in "*General Development of the Business*".

Intercorporate Relationships

OpCo is a wholly-owned subsidiary of the Company. OpCo has four subsidiaries: (i) Therabis, LLC (85% ownership); (ii) Aceso Wellness, LLC (100% ownership); (iii) DB Finance, LLC (80% ownership) and (iv) DB Products Nevada, LLC (70% ownership). The chart below sets out the corporate structure of the Company and its subsidiaries, their respective jurisdictions of incorporation, and the percentage of voting rights held:



GENERAL DEVELOPMENT OF THE BUSINESS

Prior to the RTO, Academy was inactive with no business operations, revenue or profits since its incorporation.

USA Inc. was organized as a Delaware corporation on May 5, 2014 to serve as a branding and marketing company that licenses certain technology and Product names used in or related to THC-based Products, by and through various brands including "DIXIE ELIXIRS & EDIBLES", as well as full spectrum hemp oil derived human and animal dietary supplements through the brands "Aceso Wellness" and "Therabis", respectively. The intellectual property, including the Dixie trademarks, recipes, processes, trade secrets and goodwill associated therewith (the "**Dixie IP**"), is exclusively and directly owned by the Company.

The Company, through its affiliates, has been formulating and producing THC and CBD-infused Products since 2009. Since its inception, the Company has entered into affiliate relationships with local manufacturers in various states throughout its expansion. The responsibilities of each affiliate partner include sourcing and extraction of cannabis oil, manufacturing, sales, and distribution of the Dixie brand product portfolio.

Colorado

- Affiliate: Left Bank
- Partnership formed: 2009
- Market: Dixie Brands - Medical and Adult use

California

- Affiliate: Indus Holding, Co
- Partnership formed: 2015
- Market: Dixie Brands - Medical and Adult use

Nevada

- Affiliate: Silverstate Wellness
- Partnership formed: 2016
- Market: Dixie Brands - Medical and Adult use

Maryland

- Affiliate: Curio Wellness
- Partnership formed: 2017
- Market: Dixie Brands - Medical

Michigan

- Affiliate: Choice Labs, LLC
- Definitive joint venture licensing agreement: 2019

Oklahoma

- Affiliate: Globus Holdings
- Manufacturing, distribution and licensing arrangement: 2019

Canada

- Affiliate: Auxly
- Partnership formed: 2018

New Zealand

- Affiliate: Therabis New Zealand
- Partnership formed: 2015

Australia

- Affiliate: Therabis Australia
- Partnership formed: 2015

Latin America

- Affiliate: Khiron Life Sciences Corp.
- Definitive joint venture agreement: 2019

The Company is expanding the Dixie brand and line of Products into U.S. states where medical and recreational marijuana is legal by contracting with local state license holders in those states to produce and distribute Dixie brand Products. The Company typically will be paid an initial production and service fee as well as monthly branding fees, negotiated on a state-by-state basis, for each unit sold or a derivative thereof. The Company may also enter into financial transactions to support licensees or affiliated manufacturing companies in order to promote, support, and develop sales and distribution of Dixie Products. The Company may invest in joint ventures in various U.S. states, Canada, Australia, New Zealand, Latin America and other international jurisdictions where cannabis is legal. The Company currently, or expects to: (i) serve as a branding, marketing and consulting company that will license certain technology and product names related to the business of THC-based Products and hemp derived supplements, by and through various brands, to businesses engaged in the retail and medical cannabis industry, as applicable, in compliance with applicable laws; (ii) provide consulting services to such Operating Companies, in compliance with applicable laws; (iii) serve as a real estate, fixtures and equipment holding and management company that will acquire, lease, develop and/or manage real property, industrial fixtures and equipment and lease and/or sublease such facilities and infrastructure to Operating Companies; (iv) invest in Operating Companies, in compliance with applicable state law; and (v) enter into financial transactions to support Operating Companies, including, without limitation, loan transactions, in order to promote, support, and develop sales and distribution of Dixie Products.

The RTO

On September 28, 2018, the Company entered into the Amalgamation Agreement with Amalco and USA Inc., pursuant to which the Company agreed to acquire all of the issued and outstanding USA Shares in exchange for SVS of the Company. Subsequently, Amalco and USA Inc. merged to form OpCo. Pursuant to the Amalgamation, the Company acquired all of the USA Shares by way of a "three-cornered" amalgamation whereby:

- (a) each USA Share issued and outstanding immediately prior to the Amalgamation Effective Date was transferred by each holder thereof to the Company in exchange for approximately 10.535 fully paid and non-assessable SVS for each USA Share;

- (b) each Amalco share issued and outstanding immediately prior to the Amalgamation Effective Date was exchanged for one OpCo share as a result of the Amalgamation;
- (c) each USA Share held by the Company was cancelled as a result of the Amalgamation and the Company received, for each USA Share, 0.01 shares of common stock of OpCo;
- (d) holders of USA Warrants exchanged their warrants for Warrants of the Company with the same economic value and expiration date;
- (e) holders of USA Options exchanged their options for Options of the Company with the same economic value and expiration date; and
- (f) each Management Option was exchanged for one NPV Share and thereafter cancelled. All NPV Shares are now held by Management HoldCo, a private corporation the shares of which may only be held by employees of OpCo.

The Amalgamation resulted in USA Inc. merging with Amalco and becoming OpCo, and OpCo changing its name to Dixie Brands (USA), Inc. and becoming a wholly-owned subsidiary of the Company. Concurrently, the Company changed its name to Dixie Brands Inc.

As a closing condition of the Amalgamation, in order to optimize the share structure of the Company, the Company effected the Consolidation prior to closing and amended its articles to provide for the NPV Shares. Without implementing the Consolidation, the Company would have been required to issue approximately 42 SVS for every USA Share upon closing of the Amalgamation.

The specific valuation ascribed to USA Inc. in the Amalgamation Agreement and with respect to any USA Shares acquired by the Company was determined by arm's length negotiation between USA Inc. and certain shareholders of the Company.

A special meeting of the Shareholders of Academy was held on September 5, 2018 (the "**Meeting**") where the Shareholders approved, among other things, the RTO transaction, the Consolidation, and the Name Change.

Upon completion of the Amalgamation, the former directors of the Company resigned and Charles Smith, Brian Graham, Melvin Yellin, Devin Binford, Vincent "Tripp" Keber, III, Michael Lickver and Hugo Alves were appointed to the Company's Board of Directors. The officers of the Company upon completion of the RTO consisted of:

- Charles Smith (Chief Executive Officer);
- James Feehan (Interim Chief Financial Officer); and
- C.J. Chapman (General Counsel and Secretary).

DESCRIPTION OF THE BUSINESS

General

Summary

The Company was formed for the primary purpose of managing, protecting, and promoting a portfolio of licensed intellectual property and commercialization of proprietary processes and Products related to the Dixie brand. The Company is the owner of the Dixie IP and is engaging in the licensing of proprietary bases, essences, and other prepared ingredients the formula for which is an industrial secret of the Company, from which branded and proprietary THC-infused Products are manufactured by Operating Companies and distribution Affiliates. Dixie Products are made with pure, premium cannabis.

The Company is an industry leader in the research and development of new and innovative cannabinoid-infused Products in a variety of formats to meet the needs and preferences of a discerning consumer. The Company's Product portfolio consists of confections, beverages, tinctures and topicals – each with unique uptake properties and taste profiles. Additionally, the Company's portfolio includes low-dose, sugar-free, gluten-free, and vegan options that are in line with current consumer trends and accommodating for special dietary restrictions.

Through the Company's manufacturing and distribution affiliates, each proprietary Product is infused with clean carbon dioxide extracted THC that is laboratory tested. The Company currently controls the intellectual property for many premium THC-infused Product lines, including: Dixie Elixirs Sparkling Beverages, Dixie Mints, Dixie Dew Drops (sublingual tinctures), Dixie Chocolates, Dixie Topicals, and Dixie Synergy 1:1 CBD and THC Products. The Company also controls the operations and intellectual property for its hemp supplement subsidiaries, Aceso Wellness and Therabis, LLC.

The Company's portfolio contains two Product lines that specifically take advantage of the added healing and anti-anxiety benefits of cannabidiol ("**CBD**"). This compound is commonly recognized for its ability to fight inflammation and reduce pain without the psychoactive effects typically associated with THC. *Aceso* is a suite of "hemp 2.0" Products designed to provide general wellness as well as relief from minor aches, pains and mild-anxiety catered for humans. *Therabis* is a pet supplement formulated by an experienced veterinarian and designed to provide relief from itching and mild-anxiety as well as an increase in joint mobility.

For nearly a decade, the Company's team has worked to develop safe, consistent, and innovative Products to serve the growing consumer demand for cannabis.

Originating from a single flagship Product, the Dixie Elixir (a THC-infused soda), Dixie has developed a portfolio of 100 different cannabis-infused Products across over 30 product categories, representing the industry's finest confections, tinctures, and topicals. The Company believes that Dixie is one of the most highly regarded brand portfolios in the industry.

Currently, the Company has licensed certain portions of the Dixie IP to qualified state regulated producers in the following six states: Nevada, Colorado, California and Maryland, Michigan and Oklahoma.

Nevada

The Company and Silver State Wellness LLC ("**SSW**"), a state regulated producer of THC Products in Nevada, have entered into a joint venture to manufacture and distribute Dixie branded Products in Nevada. The joint venture is conducted through DB Products Nevada LLC ("**DBPN**"), a 70% Nevada

subsidiary of the Company which was formed on May 5, 2016. Through the joint venture, the Company has exclusively licensed the preparation, packaging, distribution and sale of Dixie Products in Nevada to SSW through the joint venture. The Company will receive 73.5% of the gross revenue DBPN derives from Dixie Products in Nevada while SSW will receive 25% of the gross revenue. SSW is required to pay an initial branding fee to DBPN and has agreed to purchase packaging and ingredients from DBPN, which are subject to monthly packaging, labeling and ingredient fees based on the number of Products ordered.

SSW has retained DBPN to provide business and consulting services for which DBPN receives a fee. In addition, DBPN provided a revolving line of credit to SSW on October 13, 2016 for a principal sum of US\$500,000 with 12% interest per annum on any outstanding balance. DBPN also leases certain equipment to SSW in connection with the venture.

The joint venture and ancillary agreements have an initial term of five (5) years with two (2) consecutive five (5) year renewals at the option of SSW. DBPN through SSW launched distribution of Dixie branded Products at the end of 2016 to the medical market. Recreational sales began in July of 2017 in Nevada.

Colorado

The Company and Left Bank, LLC ("**Left Bank**"), a company licensed to prepare and distribute THC Products in Colorado, entered into a manufacturer's license agreement on May 14, 2014 pursuant to which the Company granted Left Bank an exclusive right to use and license Dixie trademarks and preparation methods as well as prepare, package, distribute and sell Dixie Products in Colorado. Left Bank has an exclusive right to supply, designate and authorize third party suppliers for ingredients. Pursuant to the agreement, Left Bank provided the Company an initial branding fee and agreed to purchase ingredients and packaging materials from the Company or authorized third party suppliers. Left Bank additionally pays the Company a monthly packaging fee and packaging and labelling fees which are based on the number of containers ordered through the period. The manufacturer's license agreement has an initial term of five (5) years with two (2) consecutive five (5) year renewals. Left Bank must provide a written notice twelve (12) months prior to the expiration of the agreement to exercise this option.

Left Bank is currently the largest producer of Dixie branded Products in the U.S.

California

The Company entered into a manufacturer's license agreement on April 4, 2015 with three state regulated THC producers in California. Pursuant to the agreement, Indus Holdings Co. ("**Indus**"), a Delaware Corporation; Edible Management, LLC ("**Edible**"), a California limited liability company; and Cypress Manufacturing Company ("**Cypress**"), a California corporation, were collectively granted an exclusive license to prepare, package, distribute and sell Dixie Products in California. Indus, Edible and Cypress paid an initial branding fee to the Company, and agreed to purchase ingredients and packaging from the Company or authorized third party suppliers. The Company receives a bi-monthly preparation fee based on the number of Dixie Products sold through the period. Indus, Edible and Cypress also agreed to advertise, market and promote Dixie Products to create, stimulate and sustain demand in California. The manufacturer's license agreement has an initial term of five (5) years with two (2) consecutive five (5) year renewals at the option of Indus, Edible and Cypress.

Indus, Edible and Cypress began manufacturing and distributing Dixie Products to medical dispensaries in California in 2015 and are now expanding distribution to legal recreational dispensaries in that state.

Maryland

The Company and Curio Manufacturing LLC ("**Curio**"), a company licensed to prepare and distribute THC Products in Maryland, entered into a manufacturer's license agreement on November 2, 2016 pursuant to which the Company granted an exclusive non-transferable license to Curio to prepare, package, distribute and sell Dixie Products in Maryland. Pursuant to the agreement, Curio provided the Company an initial branding fee and agreed to purchase ingredients and packaging materials from the Company or third party suppliers authorized by the Company. Curio additionally pays the Company a monthly preparation fee and supply fees which are based on the number of Dixie Products sold through the period. The manufacturer's license agreement has an initial term of five (5) years with two (2) consecutive five (5) year renewals at the option of Curio.

Curio began distribution of the Dixie branded Products in the end of 2017. Maryland is currently a medical market only.

Michigan

The Company and Choice Labs, LLC, a company licensed to prepare and distribute Products in Michigan, entered into a definitive joint venture agreement, pursuant to which, Dixie granted Choice Labs LLC a license to use Dixie IP, including its proprietary formulations and preparation methods as well as the associated trademarks, in the state of Michigan. The joint venture agreement provides for the production and sale of Dixie Products in Michigan.

Oklahoma

The Company and Globus Holdings are party to a manufacturing, distribution and licensing agreement, which grants Globus Holdings the right to use the Company's intellectual property, proprietary formula and preparation methods as well as associated trademarks for the sale of medical-use cannabis in Oklahoma. First sales are expected to occur in Oklahoma in the fall of 2019.

Canada

The Company and Auxly Cannabis Group Inc. ("**Auxly**"), a Canadian corporation, entered into a licensing agreement on May 7, 2018, pursuant to which the Company granted an exclusive license to Auxly to prepare, package, distribute and sell Dixie branded Products in Canada and Mexico. Pursuant to the agreement, Auxly was granted a ten-year term to the Dixie IP with some limited right to sublicense or transfer this license to an entity where it holds at least 51% voting power. As consideration, Auxly is subject to license fees based on gross revenues from the sale of Dixie Products of which US\$4,000,000 has been pre-paid at the execution of the agreement. Auxly and the Company have formed a joint relationship committee consisting of one representative from each party to provide oversight, including approving packaging, containers and ingredients used by Auxly. The agreement may be extended for up to two (2) additional periods of five (5) years. The Company subsequently licensed the Mexican access rights to Dixie Khiron JV Corp. after repurchasing from Auxly in the first quarter of 2019.

Australia

Therabis, LLC ("**Therabis**") is a 85% owned Delaware subsidiary of the Company that is engaged in the manufacture and sale of cannabis Products intended for ingestion by animals. Therabis entered into a manufacturer's license agreement on May 22, 2017 with Therabis Holdings Pty Ltd. ("**AustraliaCo**"), a regulated producer of THC Products in Australia. Pursuant to the agreement, Therabis granted AustraliaCo an exclusive, non-transferable right to use its trademarked animal Product lines and

preparation methods for importation, preparation, packaging, distribution and sale of Therabis Products in Australia and New Zealand. Under the terms of the agreement, AustraliaCo has paid an initial branding fee to secure its exclusive license. Therabis has agreed to provide AustraliaCo Products and/or bulk ingredients at wholesale cost and training and support. AustraliaCo will purchase Product packaging from Therabis and is also required to pay monthly Product license fees based on revenue derived from Therabis Products. The manufacturer's license agreement has an initial term of five (5) years with two (2) consecutive five (5) year renewals at the option of Therabis Australia.

Latin America

The Company and Khiron Life Sciences Corp. ("**Khiron**"), a company licensed for the cultivation, production, domestic distribution and international export of THC and CBD medical cannabis, entered into a joint venture agreement on March 14, 2019. Pursuant to the joint venture, each of the Company and Khiron are 50% owners of Dixie Khiron JV Corp., an entity that manufactures and distributes cannabis-infused products in the Latin America market. The Company has licensed its intellectual property, including the trademarks of its brand portfolio, and its proprietary recipes, processes and production methods to Dixie Khiron JV Corp. Khiron is responsible for the day to day operations of Dixie Khiron JV Corp., including the supply of Cannabis ingredients and the production of the branded Products. Pursuant to the joint venture agreement, the Company will also manufacture and distribute Khiron's Kuida® brand Products in the United States.

Production and Services

The Company has formulations and standard operation procedures to ensure consistent commercial production of its partners. This includes the development and sourcing of packaging and raw materials. Additionally, the Company's affiliate support team provides training and consulting services to ensure compliance under the Company's standard operating procedures.

Specialized Skill and Knowledge

For nearly a decade, the Company has pioneered new extraction techniques and Product development technology to aid in specific cannabinoid isolation for use in trendsetting infused Products in various formats. These techniques have paved the way for the evolution of infused Products by way of new cannabinoid-specific ratios that more accurately target the unique ailments of the patient or consumer. The Company's research and execution of these cannabinoid ratio Products accounts for several top revenue-generating and award-winning Product categories in the Dixie Brands line up.

The Company has written, vetted, and implemented nearly 250 proprietary Standard Operating Procedure ("**SOP**") documents to assist our affiliate network in infusing and producing premium, safe and constant cannabis-based Products in compliance with each state's individual regulations while delivering on Dixie's brand promise. In addition, Dixie's SOP database includes procedures for complaint and efficient oversight of an infused-Product manufacturing facility. These facility-based procedures include extraction methods, maintenance, security, and other good manufacturing procedures.

Competitive Conditions

The cannabis industry is still in many respects a "cottage industry" with few national brands or companies. Many competing companies are small, undercapitalized and have a limited Product set. We expect larger and better funded companies to emerge in the coming years.

Components

As an integral component of the Dixie IP, the Company has researched, developed, and implemented a suite of federally certified child resistant packaging options to satisfy each of our product categories. These solutions, some proprietary and award-winning, have acted as a key component to the Company's expansion into new markets and helps our affiliate partners navigate the regulatory landscape with speed and confidence as it relates to packaging and safety.

The procurement and logistics arm of the Company ensures timely and consistent delivery of packaging and non-THC raw materials to affiliates in states where Dixie Products are manufactured and sold. This model allows for purchasing power with our vendors and results in a seamless brand identity and product continuity as we expand. Due to state regulation, THC-containing material must be grown, sourced and manufactured from the individual state where the finished goods are being produced.

Intangible Properties

Since 2009, the Company has been widely recognized as the global industry leader in developing safe, consistent, and innovative cannabis-infused Products. This leadership, in conjunction with the Company's commitment to working side-by-side with state and federal regulatory agencies, has allowed the Dixie brands to grow from a foundation built on trust and integrity.

This commitment to our consumers and the industry as a whole has enabled the Company to establish tremendous equity within the Dixie Brand. This thought-leadership has resulted in numerous national and global media exposés in outlets such as MSNBC, The Today Show, 60 Minutes, and The New York Times. As the Company's brand portfolio continues to expand, so does its reputation as the worldwide leader in global cannabis expansion.

Therabis and Aceso each hold unique patent claims to support their Product lines. The Therabis chewable patent claims a chewable supplement for pets that consists of one or more layers and contains one or more cannabinoids and nutritional supplements such as vitamins and Green Lipped Mussel. The Aceso patent claims a powder containing one or more cannabinoids, vitamins, and plant or herbal extracts that, when combined with, water form a stable effervescent emulsion.

Cycles

The Dixie brands Product portfolio represents a quiver of Products that account for seasonal changes in food preferences and unique tourism draws in each market.

Colorado's peak seasons include the summer months (June-August) and late winter/early spring (January-April). This seasonality directly reflects the ebb and flow of the Colorado tourism market and the influx of out-of-state consumers to take part in ski season, summer events, and recreation-based travel. Dixie's Product line contains Products that lend themselves well to this seasonal shift. Our portfolio includes beverages and confections in line with warm weather activity for the summer as well as drink additives and chocolates that attract consumers during the winter.

Nevada's revenue stream tends to be more consistent with less seasonality than other markets. This is due to the steady influx of tourists entering the city of Las Vegas each day. Las Vegas' unique market is an exciting opportunity due to the nearly 40 million people that visit annually. As cannabis education and awareness increases, so does the interest from the city's revolving door of patrons.

In late 2017, Maryland's medical marijuana market was birthed and has proven to be a key market for the cannabis industry. The state of Maryland has issued nearly 20,000 licenses to patients who are using cannabis to treat conditions such as chronic pain, severe nausea, and muscle spasms. Patient education has blossomed over the last two years in this market and continues to drive steady revenue for our elixir, topical, and mints categories.

Northern California's seasonality closely mirrors that of Colorado due to the interest from recreational enthusiasts. Dixie's broad Product portfolio meets the need of these consumers by encouraging use of specific products for certain times of the year, activities, and needs. California's southern territory represents a more consistent market for the portfolio as a whole.

As we expand into new emerging markets such as Massachusetts, Michigan, Florida, Pennsylvania, and Oregon, Dixie's broad Product portfolio and seasonal offerings will help form a unique strategy for each region.

Economic Dependence

The Company is materially dependent on the licensing agreements it has with its Operating Companies. If one or more of these companies ceases production, then the Company would need to find another licensed manufacturer within that state to continue operations and hit target revenue goals.

Currently, the Company holds licensing agreements with Left Bank, LLC (Colorado), Curio Wellness (Maryland), Indus Distribution (California), and Silverstate Wellness (Nevada).

Changes to Contracts

The Company is currently reviewing its partnership with the California Operating Company, Indus, that is anticipated to allow for greater revenue generation and brand presence throughout the state. This is anticipated to result in significantly higher revenue recognized in 2018 by the Company.

Environmental Protection

No financial or operational effects as a result of environmental protection requirements are anticipated.

Employees

Presently, the Company and its subsidiaries employ a total of 35 people.

Foreign Operations

The Company will have operations in the U.S. through the Operating Companies. There are various risks associated with operations in the U.S. as detailed in "*Risk Factors*".

Lending

The Company plans to review future opportunities on an individual basis in the context of its general business practices and goals. Specific lending and investment policies will be developed on an as-needed basis and in conformity with the Company's plans to expand the DIXIE brand and line of Products.

Bankruptcy, etc.

The Company has not been the subject of any bankruptcy or any receivership or similar proceedings against it or its subsidiaries or any voluntary bankruptcy, receivership or similar proceedings by it or its subsidiaries, within the three (3) most recently completed financial years or the current financial year.

Reorganizations

Except for the Amalgamation described above, the Company has not been subject to any material reorganization within the three (3) most recently completed financial years nor is it proposing any material reorganization for the current financial year.

REGULATORY OVERVIEW

On February 8, 2018, the Canadian Securities Administrators issued Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* ("**Staff Notice 51-352**") which provides specific disclosure expectations for issuers that have U.S. cannabis-related activities. Issuers are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents, such as this AIF. In accordance with the Staff Notice 51-352, below is a table of concordance that is intended to assist readers in identifying those parts of this AIF that address the disclosure expectations outlined in Staff Notice 51-352.

We 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 cannabis regulation.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Reference Section or Comment
All Issuers with U.S. Cannabis-Related Activities	Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	General Developments of the Business Description of the Business
	Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	Cover Page – Disclosure in bolded box Risk Factors – Risks Related to the Operating Companies and the Cannabis and Marijuana Industry in the U.S.
	Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.	Cover Page – Disclosure in bolded box Regulatory Overview - U.S. Regulatory Environment Risks Related to the Operating Companies and the Cannabis and Marijuana Industry in the U.S.

	<p>Outline related risks including, among others, the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.</p>	<p>Regulatory Overview - U.S. Regulatory Environment</p> <p>Risk Factors – Risks Related to the Operating Companies and the Cannabis and Marijuana Industry in the U.S. - <i>Operating Companies in the cannabis industry may have difficulty obtaining and maintaining various business services from third party providers.</i></p> <p>Risk Factors – Risks Related to the Operating Companies and the Cannabis and Marijuana Industry in the U.S. - <i>The enforcement priorities of the U.S. federal government are unpredictable and subject to change.</i></p>
	<p>Given the illegality of marijuana under U.S. federal law, discuss the issuer's ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.</p>	<p>Risk Factors – Risks Related to the Operating Companies and the Cannabis and Marijuana Industry in the U.S. - <i>U.S. federal enforcement priorities may have a chilling effect on investment and interest in the cannabis industry.</i></p> <p>Risk Factors – Risks Related to the Operations of the Company – <i>The Company may need to raise additional capital in the immediate future.</i></p> <p>Risk Factors – Risks Related to the Operations of the Company - <i>Global financial conditions may not be conducive to the operations and profitability of the Company.</i></p>
	<p>Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana-related activities.</p>	<p>At the time of this AIF, all operations of the Corporation are in the United States.</p>
	<p>Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.</p>	<p>The Company retains appropriately experienced legal counsel to conduct the necessary due diligence to ensure compliance of operations with all applicable regulations.</p> <p>Cover Page – Disclosure in bolded box</p> <p>Risk Factors – Risks Related to the Operating Companies and the Cannabis and Marijuana Industry in the U.S.</p>
<p>U.S. Marijuana Issuers with direct involvement in cultivation or</p>	<p>Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.</p>	<p>U.S. Regulatory Environment – California, Nevada, Colorado, Maryland, Michigan and Oklahoma</p>

distribution	Discuss the issuer's program for monitoring compliance with U.S. state law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any noncompliance, citations or notices of violation which may have an impact on the issuer's licence, business activities or operations.	U.S. Regulatory Environment – California, Nevada, Colorado, Maryland, Michigan and Oklahoma
U.S. Marijuana Issuers with indirect involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer's investee(s) operate.	Regulatory Overview - U.S. Regulatory Environment – California, Nevada, Colorado, Maryland, Michigan and Oklahoma
	Provide reasonable assurance, through either positive or negative statements, that the investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non-compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee's license, business activities or operations.	Regulatory Overview - U.S. Regulatory Environment
U.S. Marijuana Issuers with material ancillary involvement	Provide reasonable assurance, through either positive or negative statements, that the applicable customer's or investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	Regulatory Overview - U.S. Regulatory Environment

U.S. Regulatory Environment

The United States federal government regulates drugs through the Controlled Substances Act (CSA), which places controlled substances, including cannabis, in five different tiers or schedules. Under U.S. federal law, marijuana is currently a Schedule I drug. A Schedule I drug means the Drug Enforcement Agency considers it to have a high potential for abuse, no accepted medical use, and an absence of safe use. Other Schedule I drugs include heroin, LSD and ecstasy. The FDA has not approved marijuana as a safe and effective drug for any indication (although in June 2018, the FDA approved a cannabis-derived cannabidiol drug for treatment of two rare forms of childhood epilepsy). The Company believes the CSA categorization as a Schedule I drug is not reflective of the medicinal properties of marijuana or the public perception thereof, and numerous studies show cannabis is unlikely to be abused in the same way as other Schedule I drugs, has medicinal properties, and can be safely administered. Additionally, while studies show cannabis is less harmful than alcohol,¹ alcohol is not classified under the CSA.

¹See Lachenmeier, DW & Rehm, J. (2015). Comparative risk assessment of alcohol, tobacco, cannabis and other illicit drugs using the margin of exposure approach. *Scientific Reports*, 5, 8126. doi: 10.1038/srep08126; Thomas, G & Davis, C. (2009). Cannabis, Tobacco and Alcohol Use in Canada: Comparing risks of harm and costs to society. *Visions Journal*, 5. Retrieved from http://www.heretohelp.bc.ca/sites/default/files/visions_cannabis.pdf; Jacobus et al. (2009). White matter integrity in adolescents with histories of marijuana use and binge drinking. *Neurotoxicology and Teratology*, 31, 349-355. <https://doi.org/10.1016/j.ntt.2009.07.006>; Could smoking pot cut risk of head, neck cancer? (2009 August 25). Retrieved from <https://www.reuters.com/article/us-smoking-pot/could-smoking-pot-cut-risk-of-head-neck-cancer-idUSTRE57O5DC20090825>; Watson, SJ, Benson JA Jr. & Joy, JE. (2000). Marijuana and medicine: assessing the science base: a summary of the 1999 Institute of Medicine report. *Arch Gen Psychiatry Review*, 57, 547-552. Retrieved from <https://www.ncbi.nlm.nih.gov/pubmed/10839332>; Hoaken, Peter N.S. & Stewart, Sherry H. (2003). Drugs of abuse and the elicitation of human aggressive behavior. *Addictive Behaviours*, 28, 1533-1554. Retrieved from <http://www.ukcia.org/research/AggressiveBehavior.pdf>; and Fals-Steward, W., Golden, J. & Schumacher, JA. (2003). Intimate partner violence and substance use: a longitudinal day-to-day examination. *Addictive Behaviours*, 28, 1555-1574. Retrieved from <https://www.ncbi.nlm.nih.gov/pubmed/14656545>.

Given that 30 U.S. states have now legalized adult-use and/or medical marijuana, the federal government sought to provide guidance to enforcement agencies and banking institutions with the introduction of two United States Department of Justice Memoranda drafted by former Deputy Attorney General James Michael Cole in August 2013 (the "**Cole Memo**")² and February 2014³ and the Department of the Treasury Financial Crimes Enforcement Network ("**FinCEN**") guidance in February 2014.⁴

The Cole Memo offered guidance to federal enforcement agencies as to how to prioritize civil enforcement, criminal investigations and prosecutions regarding marijuana in all states. The memo put forth eight prosecution priorities:

1. preventing the distribution of marijuana to minors;
2. preventing revenue from the sale of marijuana from going to criminal enterprises, gangs and cartels;
3. preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
4. preventing the state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
5. preventing the violence and the use of firearms in the cultivation and distribution of marijuana;
6. preventing the intoxicated driving and the exacerbation of other adverse public health consequences associated with marijuana use;
7. preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
8. preventing marijuana possession or use on federal property.

In January 2018, United States Attorney General Jeff Sessions rescinded the Cole Memo and thereby deferred enforcement decisions to the U.S. Attorneys across the country. As an industry best practice, despite the rescission of the Cole Memo, the Company continues to do the following to ensure compliance with the guidance provided by the Cole Memo:

- Ensure the operations of its subsidiaries (or third parties, in the jurisdictions where they conduct their business as an ancillary services provider) are compliant with all licensing requirements that are set forth with regards to cannabis operation by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions. To this end, the Company retains appropriately experienced legal counsel to conduct the necessary due diligence to ensure compliance of such operations with all applicable regulations;

²U.S. Dept. of Justice. (2013). *Memorandum for all United States Attorneys re: Guidance Regarding Marijuana Enforcement*. Washington, DC: US Government Printing Office. Retrieved from <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>.

³James M. Cole, Deputy Attorney General, U.S. Department of Justice, Memorandum for All United States Attorneys: Guidance Regarding Marijuana Related Financial Crimes (February 14, 2014).

⁴Department of the Treasury Financial Crimes Enforcement Network. (2014). Guidance re: BSA Expectations Regarding Marijuana-Related Businesses (FIN-2014-G001). Retrieved from <https://www.fincen.gov/resources/statutes-regulations/guidance/bsa-expectations-regarding-marijuana-related-businesses>.

- Ensure that the activities undertaken by its subsidiaries relating to cannabis business adhere to the scope of the licensing obtained – for example, in the states where only medical cannabis is permitted, the Products are only sold to patients who hold the necessary documentation to permit the possession of the cannabis; and in the states where cannabis is permitted for adult recreational use, the Products are only sold to individuals who meet the requisite age requirements;
- In working with licensed Operating Companies in states where programs allow for the wholesaling of Products, the Company conducts due diligence on the policies and procedures to ensure that the Products are not distributed to minors. Additionally, the Company employs professional consultants to investigate any past license violations and ensure that the business has not been involved in these types of violations;
- The Company only works through licensed Operating Companies, which must pass a range of requirements, adhere to strict business practice standards and be subjected to strict regulatory oversight whereby sufficient checks and balances to ensure that no revenue is distributed to criminal enterprises, gangs and cartels. Furthermore, as a part of its due diligence, the Company retains professional consultants to vet the ownership of such cannabis businesses to ensure that no profits or revenues are used for the benefit of criminal enterprises;
- As a part of its compliance audit, the Company also ensures that its licensed operators have an adequate inventory tracking system and necessary procedures in place to ensure that such compliance system is effective in tracking inventory. This is done to ensure that there is no diversion of cannabis or cannabis Products into the states where cannabis is not permitted by state law, or cross the state lines in general;
- The Company conducts the necessary review of financial records and, where appropriate, retains professional third-party consultants to do so, to ensure that the state-authorized cannabis business activity is not used as a cover or pre-text for trafficking of other illegal drugs, is not engaged in other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;
- The Company conducts background checks to ensure that the principals and management of the licensed operators 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; and
- The Company conducts reviews of the activities of Operating Companies it contracts with, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis Products outside of licensed premises (including the cases where such possession is permitted by regulation – e.g. transfer of Products between licensed premises). These activities are done to ensure that no licensed operators possess or use cannabis on federal property or engage in manufacturing or cultivation of cannabis on federal lands.

Due to the CSA categorization of marijuana as a Schedule I drug, U.S. federal law makes it illegal for financial institutions that depend on the Federal Reserve’s money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could risk prosecution and conviction of money laundering offenses for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account,

debit or credit card, small business loan, or any other service could also be found in violation of federal law.

While there has been no change in U.S. federal banking laws to account for the trend towards legalizing medical and recreational marijuana by U.S. states, in February 2014, Deputy Attorney General Cole issued guidance directing prosecutors to consider the Cole Memo enforcement priorities with respect to federal money laundering, unlicensed money transmitter, and Bank Secrecy Act ("**BSA**") offenses predicated on marijuana-related violations of the CSA. FinCEN also issued guidance in February 2014 clarifying how financial institutions can provide services to marijuana-related businesses consistent with their BSA obligations, and aligning the information provided by financial institutions in BSA reports with federal and state law enforcement priorities. The customer due diligence steps include, but are not limited to:

1. verifying with the appropriate state authorities whether the business is duly licensed and registered;
2. reviewing the license application (and related documentation) submitted by the business for obtaining a state license to operate its marijuana-related business;
3. requesting from state licensing and enforcement authorities available information about the business and related parties;
4. developing an understanding of the normal and expected activity for the business, including the types of Products to be sold and the type of customers to be served (e.g., medical versus recreational customers);
5. ongoing monitoring of publicly available sources for adverse information about the business and related parties;
6. ongoing monitoring for suspicious activity; and
7. refreshing information obtained as part of customer due diligence on a periodic basis and commensurate with the risk. With respect to information regarding state licensure obtained in connection with such customer due diligence, a financial institution may reasonably rely on the accuracy of information provided by state licensing authorities, where states make such information available.

Due to the risk aversion of financial institutions, marijuana businesses are often forced into becoming "cash-only" businesses. As banks and other financial institutions in the U.S. are generally unwilling to be exposed to potential violations of federal law without guaranteed immunity from prosecution, most refuse to provide any kind of services to marijuana businesses. Despite the attempt by FinCEN to expand access to banking for marijuana-related businesses, practically the guidance has not improved access to banking services by marijuana businesses. This is because, as described above, the current law does not guarantee banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana business they take on as a customer. Recently, some banks that have been servicing marijuana businesses have been closing accounts operated by marijuana businesses and are now refusing to open accounts for new marijuana businesses for the reasons enumerated above.

The few credit unions who have agreed to work with marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Since the federal government can

change enforcement priorities at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also servicing the needs of their other customers.

The U.S. Secretary of the Treasury, Stephen Mnuchin, has publicly stated that he did not participate in the Attorney General's decision to rescind the Cole Memo and does not have a desire to rescind the FinCEN guidance for financial institutions without a replacement.⁵ Multiple legislators believe that Sessions' rescission of the Cole Memo invites an opportunity for Congress to pass more definitive protections for marijuana businesses in states with legal marijuana programs during this Congress.⁶

Both Congress and marijuana-related businesses recognize that guidance is not law and thus have worked to continually renew the Rohrabacher Blumenauer Appropriations Amendment (originally the Rohrabacher Farr Amendment) since 2014. This amendment prevents the Department of Justice from using appropriated funds to impede the implementation of medical cannabis laws enacted at the state level. In 2017, Senator Patrick Leahy (Vermont) introduced a similar amendment to H.R.1625 – a vehicle for the Consolidated Appropriations Act of 2018, preventing federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level (the "**Leahy Amendment**").

For fiscal year 2019, the strategy amongst Marijuana proponents in Congress is to introduce numerous marijuana-related appropriations amendments in the Appropriations Committee in both the House and Senate, similar to the strategy employed in fiscal year 2018.⁷ The amendments will include protections for marijuana-related businesses in states with medical and adult use marijuana laws, as well as protections for financial institutions that provide banking services to state-legal marijuana businesses.⁸ However, it should be noted that there is no assurance that such amendments will be passed into law.

Since 2014, Congress has made significant developments in marijuana policy. The bipartisan Congressional Cannabis Caucus launched in 2017 and is headed by Representatives Dana Rohrabacher (CA-48), Earl Blumenauer (OR-03), Don Young (AK-At Large), and Jared Polis (CO-02). The group is "dedicated to developing policy reforms that bridge the gap between federal laws banning marijuana and the laws in an ever-growing number of states that have legalized it for medical or recreational purposes"⁹ Additionally, each year more Representatives and Senators sign on and co-sponsor marijuana legalization bills including the STATES Act, the CARERS Act, REFER Act and others. While there are different perspectives on the most effective route to end federal marijuana prohibition, Congressman Blumenauer and Senator Wyden introduced in 2017 the three-bill package, Path to Marijuana Reform which would fix the 280E provision, eliminate civil asset forfeiture and federal criminal penalties for businesses

⁵Angell, Tom. (2018 February 6). Trump Treasury Secretary Wants Marijuana Money In Banks. Retrieved from <https://www.forbes.com/sites/tomangell/2018/02/06/trump-treasury-secretary-wants-marijuana-money-in-banks/#2848046a3a53>; see also Mnuchin: Treasury is reviewing cannabis policies. (2018 February 7). Retrieved from <http://www.scotsmanguide.com/News/2018/02/Mnuchin--Treasury-is-reviewing-cannabis-policies/>.

⁶Jackson, Chere. (2018 January 30). State-by-State Analysis of Sessions Move to Rescind Cole Memo. Retrieved from <http://guardianlv.com/2018/01/state-state-analysis-sessions-move-rescind-cole-memo/>; see also Velasquez, Josefa. (2018 January 23). NY Lawmarker Asks US Attorneys to Keep Hands Off State's Med Marijuana Programs. Retrieved from <https://www.law.com/newyorklawjournal/sites/newyorklawjournal/2018/01/22/ny-lawmaker-asks-us-attorneys-to-keep-hands-off-states-med-marijuana-programs/?sreturn=20180205182803>; see also "This is Outrageous": Politicians react to news that A.G. Sessions is rescinding Cole Memo. (January 4 2018). Retrieved from <https://www.thecannabist.co/2018/01/04/sessions-marijuana-cole-memo-politicians/95890/>.

⁷Congress of the United States. (2018 January 12). Letter to The Honorable Paul Ryan, The Honorable Nancy Pelosi, Chairman Rodney P. Frelinghuysen and Ranking Member Nita Lowey. Retrieved from https://polis.house.gov/uploadedfiles/marijuana_appropriations_mccointock-polis_language_1-12-18.pdf.

⁸Congress of the United States. (2018 January 17). Letter to Director Kenneth Blanco of the Financial Crimes Enforcement Network of the Department of the Treasury. Retrieved from <https://dennyheck.house.gov/sites/dennyheck.house.gov/files/FINCEN%20MJ%20Guidance%20Letter%20FINAL.pdf>; see also United States Senate. (2018 January 11). Letter to Director Kenneth Blanco of the Financial Crimes Enforcement Network of the Department of the Treasury. Retrieved from <https://www.documentcloud.org/documents/4347431-368944892-Letter-Urging-FinCEN-to-Maintain.html#document/p1>; see also United States Senate. (2018 January 18). Letter to Director Kenneth Blanco of the Financial Crimes Enforcement Network of the Department of the Treasury. Retrieved from <https://www.documentcloud.org/documents/4356160-18-01-18-FinCEN-LTR-Cannabis-Banking.html>; see also Congress of the United States. (2018 January 25). Letter to The Honorable Donald Trump. Retrieved from https://www.warren.senate.gov/files/documents/2018_01_25%20Letter%20to%20Trump%20on%20Sessions%20withdrawal%20of%20the%20ole%20memo.pdf.

⁹Huddleston, Tom Jr. (2017 February 17). Pro-Pot Lawmakers Launch a Congressional Cannabis Caucus. Retrieved from <http://fortune.com/2017/02/16/congress-cannabis-caucus/>.

complying with state law, reduce barriers to banking, and would de-schedule, tax and regulate marijuana.¹⁰

Notwithstanding the foregoing, there is no guarantee that the current presidential administration will not change the stated policy of the previous administration regarding the low-priority enforcement of U.S. federal laws against state-legal marijuana businesses. This administration could decide to enforce U.S. federal laws vigorously. Senator Cory Booker has also introduced the Marijuana Justice Act, which would deschedule marijuana, and in 2018 Congresswoman Barbara Lee introduced the House companion.

An additional challenge to marijuana-related businesses is that the Section 280E of the Internal Revenue Code is being applied by the IRS to businesses operating in the medical and adult use marijuana industry. This provision prohibits marijuana businesses from deducting ordinary and necessary business expenses, forcing these businesses to pay higher effective federal tax rates than similar companies in other industries. The effective tax rate on a marijuana business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they might otherwise be absent this provision.

The following sections describe the legal and regulatory landscape in the states in which the Company, through its subsidiaries and licensees, operates. While the Company's operations are in full compliance with all applicable state laws, regulations and licensing requirements, for the reasons described above and the risks further described in "*Risk Factors*" below, there are significant risks associated with the business of the Company. Readers are strongly encouraged to carefully read the "*Risk Factors*" section below.

California

California Regulatory Landscape

In 1996, California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996 ("**CUA**"). This legalized the use, possession and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief. In 2003, Senate Bill 420 was signed into law establishing an optional identification card system for medical marijuana patients.

In September 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("**MCRSA**"). The MCRSA established a licensing and regulatory framework for medical marijuana businesses in California. The system created multiple license types for dispensaries, infused Products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused Product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However in November 2016, voters in California overwhelmingly passed Proposition 64, the Adult Use of Marijuana Act ("**AUMA**") creating an adult-use marijuana program for adults 21 years of age or older. AUMA had some conflicting provisions with MCRSA, so in June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act ("**MAUCRSA**"), which amalgamates MCRSA and AUMA to provide a set of regulations to govern the medical and adult-use licensing regime for cannabis businesses in the State of California. The four agencies that regulate marijuana at the state level are the Bureau of Cannabis Control

¹⁰Wyden, Blumenauer. (2017 March 30). Wyden, Blumenauer announce bipartisan path to marijuana reform. Retrieved from <https://blumenauer.house.gov/media-center/press-releases/wyden-blumenauer-announce-bipartisan-path-marijuana-reform>.

("BCC"), the California Department of Food and Agriculture, the California Department of Public Health, and the California Department of Tax and Fee Administration.

In order to legally operate a medical or adult-use cannabis business in California, the operator must have both a local and state license. This requires license holders to operate in cities with marijuana licensing programs. Therefore, cities in California are allowed to determine the number of licenses they will issue to marijuana operators, or can choose to outright ban marijuana. MAUCRSA went into effect on January 1, 2018.

Licenses

The Operating Companies in California have the requisite license to operate as medical and adult-use retailers, cultivators and distributors under applicable California and local jurisdictional law. Their licenses permitting them to possess, cultivate, process, dispense and sell medical and adult-use cannabis in California pursuant to the terms of the various licenses issued by state regulatory agencies and state law.

The licenses are independently issued for each approved activity for use at the Operating Companies and their facilities in California. These are the types of licenses available for cannabis businesses in California:

- Retailer (BCC)
- Retailer Non-Storefront (BCC)
- Distributor (BCC)
- Distributor Transport Only (BCC)
- Microbusiness (BCC)
- Testing Laboratory (BCC)
- Cannabis Event Organizer (BCC)
- Commercial Manufacturing (MSCB)
- Cultivation (CDFA)

Please see the table below for a list of the licenses issued to the Operating Companies in respect of their operations in California.

California state and local licenses are renewed annually. Each year, licensees are required to submit a renewal application per guidelines published by BCC. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, the Company would expect to receive the applicable renewed license in the ordinary course of business. While the Company's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that the Company's licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned

operations of the Company and have a material adverse effect on the Company’s business, financial condition, results of operations or prospects.

In California, the state licensing authorities include:

- **Bureau of Cannabis Control California:** The Bureau of Cannabis Control is the lead agency in regulating commercial cannabis licenses for medical and adult-use cannabis in California. The Bureau is responsible for licensing retailers, distributors, testing labs, microbusinesses, and temporary cannabis events.
- **California Department of Public Health:** The Manufactured Cannabis Safety Branch, a division of the California Department of Public Health (CDPH), is responsible for regulating and licensing the manufacturers of cannabis-infused edibles for both medical and non-medical use.
- **California Department of Food & Agriculture:** CalCannabis Cultivation Licensing, a division of the California Department of Food and Agriculture (CDFA), is responsible for licensing cultivators of medicinal and adult-use cannabis and implementing a track-and-trace system to record the movement of cannabis through the distribution chain.

Below is the list of licenses held by Cypress:

Type of License	License No.	Effective Period
Temporary Manufacturing License, Adult-Use Cannabis Products	#CDPH-T00000345 for A-Type 7: Volatile Solvent Extraction	January 1, 2018 to July 28, 2018
Adult-Use – Distributor Temporary License	#A11-18-0000287-TEMP	May 3, 2018 to August 31, 2018
Temporary Manufacturing License, Medicinal Cannabis Products	#CDPH-T00000344 for M-Type 7: Volatile Solvent Extraction	January 1, 2018 to July 28, 2018
Medicinal – Distributor Temporary License	# M11-18-0000330-TEMP	May 3, 2018 to August 31, 2018
Temporary Cannabis Cultivation License	#TML18-0003261 for Temporary-Small Mixed-Light Tier 2	May 12, 2018 to August 10, 2018

License and Regulations

The Adult-Use Retailer licenses permit the sale of cannabis and cannabis Products to any individual 21 years of age or older. Under the terms of such licenses, the Operating Companies are permitted to sell adult-use cannabis and cannabis Products to any qualified customer, provided that the customer presents a valid government-issued photo identification. The Company and its Operating Companies maintain an open and collaborative relationship with the BCC and city-level cannabis regulators.

The Medicinal Retailer licenses permit the sale of medicinal cannabis and cannabis Products for use pursuant to the CUA, found at Section 11362.5 of the Health and Safety Code, by a medicinal cannabis

patient in California who possesses a physician's recommendation. Only certified physicians may provide medicinal marijuana recommendations. The Company maintains an open and collaborative relationship with the BCC and city-level cannabis regulators.

The Adult-Use and Medicinal Cultivation licenses, which have been granted to the Operating Companies, permit cannabis cultivation activity, which means any activity involving the planting, growing, harvesting, drying, curing, grading or trimming of cannabis. Such licenses further permit the production of a limited number of non-manufactured cannabis Products and the sales of cannabis to certain licensed entities within the state of California for resale or manufacturing purposes.

The Adult-Use and Medicinal Distribution licenses permit cannabis-related distribution activity, which means the procurement, sale, and transportation of cannabis and cannabis Products between licensed entities. Distribution activity is permissible to and from certain Company-related licensees and non-Company licensees.

In the state of California, only cannabis that is grown in the state can be sold in the state. The state also allows the Operating Companies to make wholesale purchases of cannabis from, or distributions of cannabis and cannabis Products to, other licensed entities within the state.

Reporting Requirements

The state of California has selected Franwell Inc.'s METRC solution ("**METRC**") as the state's track-and-trace ("**T&T**") system used to track commercial cannabis activity and movement across the distribution chain ("**seed-to-sale**"). The METRC system is in the process of being implemented state-wide but has not been released. When operational, the system will allow for other third-party system integration via application programming interface. The Company currently utilizes an Affiliate to provide compliance reports. Certain processes remain manual, with proper control and oversight, in anticipation of METRC and greater integration of processes.

Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis Products, the California Operating Companies are required to do the following:

- Maintain a fully operational security alarm system;
- Contract for security guard services;
- Maintain a video surveillance system that records continuously 24 hours a day;
- Ensure that the facility's outdoor premises have sufficient lighting;
- Not dispense from their premises outside of permissible hours of operation;
- Store cannabis and cannabis Products only in areas per the premises diagram submitted to the state of California during the licensing process;
- Store all cannabis and cannabis Products in a secured, locked room or a vault;

- Report to local enforcement within 24 hours after being notified or becoming aware of the theft, diversion, or loss of cannabis; and
- Maintain a delivery manifest in any vehicle transporting cannabis and cannabis Products. Only vehicles registered with the BBC and that meet BBC distribution requirements are to be used to transport cannabis and cannabis Products.

Nevada

Nevada Regulatory Landscape

Medical marijuana use was legalized in Nevada in 2001 through a ballot initiative. In 2013, the Nevada legislature passed SB 374, providing for state licensing of medical marijuana establishments. On November 8, 2016, voters in Nevada passed the NRS 453D by ballot initiative allowing for the sale of recreational marijuana for adult use starting July 1, 2017. The first dispensaries to sell adult use marijuana began sales in July 2017. The Nevada Department of Taxation ("**Nevada DOT**") is the regulatory agency overseeing the medical and adult use cannabis programs. Similar to California, cities and counties in Nevada are allowed to determine the number of local marijuana licenses they will issue.

The Company, through SSW, only operates in Nevada cities or counties with clearly defined marijuana programs. Currently, SSW has locations in Las Vegas, Nevada.

Licenses

SSW is licensed to operate in the state of Nevada. Please see the table below for a list of the licenses issued to SSW in respect of its operations in Nevada. Under applicable laws, the licenses permit the Operating Company to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses, which are issued by the Nevada DOT under the provisions of Nevada Revised Statutes section 453A. These are the types of licenses available for cannabis businesses in Nevada:

- Cultivation Facility: licensed to cultivate, process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.
- Distributor: licensed to transport marijuana from a marijuana establishment to another marijuana establishment, for example, from a cultivation facility to a retail store.
- Product Manufacturing Facility: licensed to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers. Marijuana products include items such as edibles, ointments, and tinctures.
- Testing Facility: licensed to test marijuana and marijuana products, including for potency and contaminants.
- Retail Store: licensed to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

All marijuana establishments must register with Nevada DOT. If applications contain all required information and after vetting by officers, establishments are issued a medical marijuana establishment

registration certificate. In a local governmental jurisdiction that issues business licenses, the issuance by Nevada DOT of a medical marijuana establishment registration certificate is considered provisional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local governmental ordinances. Final registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. It is important to note provisional licenses do not permit the operation of any commercial or medical cannabis activity. Only after a provisional licensee has gone through necessary state and local inspections, if applicable, and has received a final registration certificate from Nevada DOT, may an entity engage in cannabis business operations.

Below is the list of licenses held by SSW:

Type of License	License No.	Effective Period
Medical Marijuana Production	#30119351751785994439	July 1, 2018 to June 30, 2018
Medical Marijuana Cultivation	# 01458092845320057986	July 1, 2018 to June 30, 2018
Marijuana Production Manufacturing	ID:1018742581-001, (correspondence: 1700011092101)	July 1, 2018 to June 30, 2018
Marijuana Cultivation	ID: 1018742581-001, (correspondence: 1700011092100)	July 1, 2018 to June 30, 2018

Nevada License and Regulations

In the state of Nevada, only cannabis that is grown/produced in the state by a licensed establishment may be sold in the state. The state also allows the Operating Company to make wholesale purchases of cannabis from other licensed entities within the state.

The retail dispensary licenses and registration certificate permit the Operating Company to purchase marijuana from cultivation facilities, marijuana and marijuana Products from product manufacturing facilities and marijuana from other retail stores, and allows the sale of marijuana and marijuana Products to consumers.

The medical cultivation licenses permit the Operating Company to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries, facilities for the production of edible medical marijuana Products and/or medical marijuana-infused Products, or other medical marijuana cultivation facilities. SSW intends to apply for recreational license status for each of the medical marijuana licenses as soon as the state releases its forthcoming applications in 2018. One must have a final registration certificate in order to apply for recreational status.

The medical Product manufacturing license permits the Operating Company to acquire, possess, manufacture, deliver, transfer, transport, supply, or sell edible marijuana Products or marijuana-infused Products to other medical marijuana production facilities or medical marijuana dispensaries. SSW intends to apply for recreational license status for the medical marijuana production license as soon as the state releases its forthcoming applications in 2018. One must have a final registration certificate in order to apply for recreational status.

Reporting Requirements

The state of Nevada uses METRC as the state's computerized T&T system used to track commercial cannabis activity and seed-to-sale. Individual licensees, whether directly or through third-party integration systems, are required to push data to the state to meet all reporting requirements. The individual licensees work directly with METRC and the METRC system captures the required data points for cultivation, manufacturing and retail as required in Nevada Revised Statutes section 453A.

Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis Products, the Operating Company is required to do the following:

- Maintain an enclosed, locked facility;
- Have a single secure entrance;
- Train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling Products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring;
- Install security equipment to deter and prevent unauthorized entrances, which includes:
 - Devices that detect unauthorized intrusion which may include a signal system;
 - Exterior lighting to facilitate surveillance;
 - Electronic monitoring including, without limitation:
 - At least one call-up monitor that is 19 inches or more;
 - A video printer capable of immediately producing a clear still photo from any video camera image;
 - Video cameras with a recording resolution of at least 704 x 480 which provide coverage of all entrances to and exits from limited access areas and all entrances to and exits from the building and which can identify any activity occurring in or adjacent to the building;
 - A video camera at each point-of-sale location which allows for the identification of any person who holds a valid registry identification card, including, without limitation, a designated primary caregiver, purchasing medical marijuana;
 - A video camera in each grow room which can identify any activity occurring within the grow room in low light conditions;
 - A method for storing video recordings from the video cameras for at least 30 calendar days;

- A failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system;
 - Sufficient battery backup for video cameras and recording equipment to support at least five (5) minutes of recording in the event of a power outage; and
 - Security alarm to alert local law enforcement of unauthorized breach of security;
- Implement security procedures that:
 - Restrict access of the establishment to only those Persons/employees authorized to be there;
 - Deter and prevent theft;
 - Provide identification (badge) for those Persons/employees authorized to be in the establishment;
 - Prevent loitering;
 - Require and explain electronic monitoring; and
 - Require and explain the use of automatic or electronic notification to alert local law enforcement of an unauthorized breach of security.

Colorado

Colorado Regulatory Landscape

In 2000, Colorado voters enacted Amendment 20 to the state constitution, which afforded certain protections from criminal prosecution for limited "medical use" of marijuana as that term is defined in the amendment. Beginning in 2008, commercial medical marijuana outlets began to appear in Colorado. In response, in 2010, the Colorado General Assembly enacted a comprehensive regulatory system governing medical marijuana establishments in the state.

In 2012, Colorado voters enacted Amendment 64 to the state constitution, which provides that the following acts are not unlawful and shall not be offenses under Colorado law or the law of any locality within Colorado or be the basis for seizure or forfeiture of assets under Colorado law for persons 21 years of age or older:

- Possessing, using, displaying, purchasing, or transporting marijuana accessories or one ounce or less of marijuana.
- Possessing, growing, processing, or transporting no more than six marijuana plants, with three or fewer being mature, flowering plants, and possession of the marijuana produced by the plants on the premises where the plants were grown, provided that the growing takes place in an enclosed, locked space, is not conducted openly or publicly, and is not made available for sale.

- Transferring one ounce or less of marijuana without remuneration to a person who is twenty-one years of age or older.
- Consuming marijuana, provided that nothing in this section shall permit consumption that is conducted openly and publicly or in a manner that endangers others.
- Assisting another person who is twenty-one years of age or older in any of the acts described in paragraphs (a) through (d) of this subsection.

Amendment 64 also directs the state General Assembly and the Colorado Department of Revenue to establish a comprehensive system of regulation and enforcement governing licensed marijuana businesses in the state. The Colorado Marijuana Enforcement Division ("**MED**") is the licensing and regulatory agency overseeing all retail and medical marijuana businesses in Colorado.

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

The Company, through Left Bank, LLC, only operates in Colorado cities or counties with clearly defined marijuana programs. Currently, Left Bank, LLC has a location in Denver, Colorado.

Colorado License and Regulations

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

Left Bank, LLC has the requisite licenses to operate as a medical and adult-use product manufacturer under applicable Colorado and local jurisdictional law. Their licenses permit them to possess, process, dispense and sell medical and adult-use cannabis in the State of Colorado pursuant to the terms of the various licenses issued by MED under the provision of Amendment 20, Amendment 64, Colorado's Medical Marijuana Code, and Colorado's Retail Marijuana Code.

Under current Colorado law, no publicly-traded company may have an ownership interest in a retail or medical marijuana establishment. In June 2018, Governor John W. Hickenlooper vetoed legislation that would have eliminated this prohibition. Renewed legislative efforts to eliminate that prohibition will be pursued in 2019.

Licenses

The Colorado Operating Company is licensed to operate in the state of Colorado as a manufacturer of infused Products (both medical and retail) and as a cultivator of marijuana (both medical and retail). Under applicable laws, the licenses permit the Operating Company to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses, which are issued by the Colorado MED under the provisions of Colorado Revised Statutes sections 12-43.3-101 et seq. and 12-43.4-101 et seq.

Presently, the types of licenses available in Colorado include:

- Retail Marijuana Store: license type necessary to operate a business that sells retail marijuana to an individual 21 years of age or older as described in section 12-43.4-402 C.R.S.
- Retail Marijuana Cultivation: license type necessary in order to operate a facility to grow and harvest retail marijuana plants as described in section 12-43.4-403 C.R.S.
- Retail Marijuana Product Manufacturer: license type necessary in order to operate a facility that manufactures retail marijuana-infused products such as edibles, concentrates or tinctures as described in section 12-43.4-404 C.R.S.
- Retail Marijuana Testing Facility: license type necessary to operate a facility that conducts potency and contaminants testing for other MED licensed retail marijuana businesses as described in section 12-43.4-405 C.R.S.
- Retail Marijuana Transporter: license type necessary to provide transportation and temporary storage services to retail marijuana businesses as described in section 12-43.4-406 C.R.S.
- Retail Marijuana Operator: license type necessary to provide professional operational services to one or more retail marijuana businesses as described in section 12-43.4-407 C.R.S.
- Medical Marijuana Center: license type necessary to operate a business that sells medical marijuana to Colorado Medical Marijuana Registry patients and transporting caregivers. Owners of this type of facility must also own and operate at least one medical marijuana cultivation facility and produce a minimum of 70% of all on-hand inventory as described in section 12-43.3-402 C.R.S.
- Medical Marijuana Optional Premises Cultivation: license type necessary operate a cultivation business to grow and harvest medical marijuana. There are no Independent Medical Marijuana Optional Premises Cultivation Licenses - these facilities *must be* affiliated with either a Medical Marijuana Center or Infused Product Manufacturer facility as described in section 12-43.3-403 C.R.S.
- Medical Marijuana Infused Product Manufacturer: license type necessary to operate a business that produces medical marijuana-infused products such as edibles, concentrates or tinctures. These licensees are only authorized to wholesale their products to MED licensed Medical Marijuana Centers as described in section 12-43.3-404 C.R.S.
- Medical Marijuana Testing Facility: license type necessary to operate a facility that conducts potency and contaminants testing and research for MED medical marijuana business licensees as described in section 12-43.3-405 C.R.S.
- Medical Marijuana Transporter: license necessary to provide transportation and temporary storage services to MED licensed medical marijuana businesses as described in section 12-43.3-406 C.R.S.
- Medical Marijuana Operator: license type necessary to provide professional operational services to one or more MED licensed medical marijuana businesses as described in section 12-43.3-407 C.R.S.

- Medical Marijuana Research and Development Facility or Cultivation: license type necessary to grow, cultivate possess and transfer marijuana for use in research only as described in section 12-43.3-408 C.R.S.

All marijuana establishments must register with the Colorado MED. If applications contain all required information and after vetting by officers, establishments are issued a license. In a local governmental jurisdiction that issues business licenses, the issuance by the Colorado MED of a marijuana license is considered provisional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local governmental ordinances. Licenses are valid for a period of one year and are subject to annual renewals after required fees are paid and provided the business remains in good standing.

Below is the list of licenses held by Left Bank, LLC (4990 Oakland St, Denver, CO 80239):

Type of License	License No.	Effective Period
Medical Marijuana Infused Product Manufacturer (MED)	#404-00036	September 4, 2018 to September 4, 2019
Retail Marijuana Products Manufacturing (MED)	#404R-00010	December 31, 2018 to January 1, 2020
Retail Marijuana Cultivation Facility (MED)	#403R-00321	July 31, 2018 to July 31, 2019
Medical Marijuana Infused Product Manufacturing (Denver)	#2013-BFN-1068489 for 404-00036	October 15, 2018 to October 15, 2019
Retail Marijuana Infused Products (Denver)	#2013-BFN-1069235 for 404R-00010	January 1, 2019 to January 1, 2020
Retail Marijuana Cultivation (Denver)	#2014-BFN-1074258 for 403R-00321	June 21, 2018 to June 17, 2019

Reporting Requirements

The state of Colorado uses METRC as the state’s computerized T&T system used to track commercial cannabis activity and seed-to-sale. Individual licensees, whether directly or through third-party integration systems, are required to push data to the state to meet all reporting requirements. METRC captures the required data points for cultivation, manufacturing and retail as required in Colorado’s Medical Marijuana Code, and Colorado’s Retail Marijuana Code.

Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis Products, the Colorado Operating Company is required to do the following:

- Have a single secure entrance;

- Maintain a fully operational security alarm system;
- Maintain a video surveillance system that records continuously 24 hours a day. Camera coverage is required for all places where weighing, packaging, processing, and transport preparation occur, all point-of-sale areas, all points of ingress and egress, and all areas where marijuana is displayed for sale;
- The recording system must record in digital format, and all video surveillance records and recordings must be stored in a secure area;
- All surveillance recordings must be kept for a minimum of 40 days and be in a format that can be easily accessed for viewing;
- Video surveillance records and recordings must be made available upon request to regulators and law enforcement;
- At all points of ingress and egress, the company must use commercial-grade, non-residential door locks;
- Not dispense from its premises outside of permissible hours of operation.

Maryland

Maryland Regulatory Landscape

In 2012, a state law was enacted in Maryland to establish a state-regulated medical marijuana program. Legislation was signed in May 2013 and the program became operational on December 1, 2017. The Maryland Medical Cannabis Commission regulates the state program and awards operational licenses in a highly competitive application process. 102 dispensary licenses were awarded out of a pool of over 800 applicants while an original 15 processing and 15 cultivation licenses were awarded out of a pool of over 150 applicants.

As of April 2018, there were over 20,000 registered and certified patients in Maryland's medical marijuana program and over 550 medical practitioners registered to certify patients as eligible. The program was written to allow access to medical marijuana for patients with any condition that is considered "severe" and for which other medical treatments have proven ineffective, including chronic pain, nausea, seizures, glaucoma and PTSD. All major product forms are allowed for sale and consumption with the exception of some edibles. Some market estimates peg the medical market size to reach approximately US\$221 million by 2021.

The Company, through Curio Wellness, only operates in Maryland cities or counties with clearly defined marijuana programs. Currently Curio Wellness has locations in Timonium, Maryland.

Licenses

The Maryland Operating Company is licensed to operate in the state of Maryland as a grower, a processor, and a dispensary. Under applicable laws, the licenses permit the Operating Company to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses.

Presently, the types of licenses available in Maryland include:

- Medical Cannabis Grower
- Medical Cannabis Processor
- Medical Dispensary
- Testing Laboratory

All marijuana establishments must register with Maryland Medical Cannabis Commission. If applications contain all required information and after vetting by officers, establishments are issued a medical marijuana establishment license. Final registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and provided the business remains in good standing.

Below is the list of licenses held by Curio:

Type of License	License No.	Effective Period
Medical Cannabis Grower	# G-17-00004	August 15, 2017 to August 15, 2019
Medical Cannabis Processor	# P-17-00003	August 15, 2017 to August 15, 2019
Medical Dispensary	# D-18-00012	February 22, 2018 to February 24, 2020

In April 2018, Maryland lawmakers agreed to expand the state’s medical marijuana industry by awarding another 20 licenses, seven for cultivation and 13 for processing.

Maryland License and Regulations

In the state of Maryland, only cannabis that is grown/produced in the state by a licensed establishment may be sold in the state. The state also allows the Operating Company to make wholesale purchases of cannabis from another licensed entity within the state.

The retail dispensary licenses and registration certificate permit the Operating Company to purchase marijuana from cultivation facilities, marijuana and marijuana Products from product manufacturing facilities and marijuana from other retail stores, and allows the sale of marijuana and marijuana Products to consumers.

The medical cultivation licenses permit the Operating Company to acquire, possess, cultivate, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries, facilities for the production of edible medical marijuana Products and/or medical marijuana-infused Products, or other medical marijuana cultivation facilities.

The medical Product manufacturing license permits the Operating Company to acquire, possess, manufacture, deliver, transfer, transport, supply, or sell edible marijuana Products or marijuana-infused Products to other medical marijuana production facilities or medical marijuana dispensaries.

Reporting Requirements

The state of Maryland uses METRC as the state's computerized T&T system used to track commercial cannabis activity and seed-to-sale. Individual licensees, whether directly or through third-party integration systems, are required to push data to the state to meet all reporting requirements. The chosen METRC system captures the required data points for cultivation, manufacturing and retail as required by the Maryland Medical Cannabis Commission (MMCC).

Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis Products, the Operating Company is required to do the following:

- Maintain an enclosed, locked facility;
- Train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling Products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring;
- Maintain a motion-activated video surveillance recording system at all premises that:
 - Records all activity in images of high quality and high resolution capable of clearly revealing facial detail;
 - Operates 24-hours a day, 365 days a year without interruption; and
 - Provides a date and time stamp for every recorded frame;
- Post appropriate notices advising visitors of the video surveillance;
- Place and operate surveillance cameras to capture activity at each exit from the premises;
- Capture activity via surveillance camera at each entrance to an area where medical cannabis is processed, tested, packaged, and stored;
- Keep a recording of all images captured by each surveillance camera at the licensed premise and an off-site location;
- Ensure recordings of security video surveillance are access-limited, secured by a security alarm system that is independent of the main premises security alarm system, kept in an easily accessible format, and retained for 30 calendar days;
- Ensure lighting fixtures are designed and installed to ensure proper surveillance;
- Maintain a security alarm system that covers all perimeter entry points and windows at all premises. This system must be continuously monitored, capable of detecting smoke and fire, and capable of detecting power loss;

- The security alarm system must include panic alarm devices mounted at convenient, readily-accessible locations throughout the licensed premises;
- A second, independent alarm system must be used to protect the location where records are stored both on and off site, and any room that holds medical cannabis;
- The security alarm system must remain operational until the premises of the licensee no longer contain any medical cannabis;
- All security alarm systems must be equipped with auxiliary power sufficient to maintain operation for at least 48 hours;
- Maintain physical security. An area of cultivation must be securely surrounded by fencing and gates constructed to prevent unauthorized entry;
- Maintain fencing and gates ensuring they are equipped with a security alarm system that covers the entire perimeter, is continuously monitored, and is capable of detecting power loss;
- Ensure the premises are protected by a video surveillance recording system that provides surveillance of the entire perimeter of the area of cultivation and surveillance over all portions of the security fence and all gates;
- Ensure the video surveillance system is supported by adequate security lighting which may be modified as necessary to include motion control sensors to protect light-dark cycles for proper cultivation;
- Ensure that the licensed dispensary contains a secure room to store the medical cannabis inventory. The secure room:
 - Must be constructed of concrete or similar building material that prevents unauthorized entry;
 - May not be placed adjacent to an exterior wall of the premises; and
 - Must have only one entrance door that meets commercial security standards, is equipped with a cipher or chip-activated keyed lock or equivalent, and is not visible from public areas of the premises.

Michigan

Michigan Regulatory Landscape

In November 2008, Michigan residents approved the Michigan Medical Marihuana Act¹¹ (the "MMMA") to provide a legal framework for a safe and effective medical marijuana program. In September 2016, the Michigan Senate passed the Medical Marihuana Facilities Licensing Act¹² (the "MMFLA") and the Marihuana Tracking Act¹³ (the "MTA" and together with the MMMA and the MMFLA, the "**Michigan**")

11 Michigan Legislature. Initiated Law 1 of 2008. Retrieved from [http://www.legislature.mi.gov/\(S\(2wgqx52pio2mltrnmi13rr0a\)\)/mileg.aspx?page=getObject&objectName=mcl-Initiated-Law-1-of-2008](http://www.legislature.mi.gov/(S(2wgqx52pio2mltrnmi13rr0a))/mileg.aspx?page=getObject&objectName=mcl-Initiated-Law-1-of-2008).

12 Michigan Legislature. Act 281 of 2016. Retrieved from [http://www.legislature.mi.gov/\(S\(xy4vurthgtuob3hr0napuhxv\)\)/mileg.aspx?page=getObject&objectName=mcl-Act-281-of-2016](http://www.legislature.mi.gov/(S(xy4vurthgtuob3hr0napuhxv))/mileg.aspx?page=getObject&objectName=mcl-Act-281-of-2016).

13 Michigan Legislature. Act 282 of 2016. Retrieved from

Cannabis Regulations") to provide a comprehensive licensing and tracking scheme, respectively, for the medical marijuana program.¹⁴ Additionally, the Michigan Department of Licensing and Regulatory Affairs and its licensing board ("**LARA**") has supplemented the Michigan Cannabis Regulations with "Emergency Rules" to further clarify the regulatory landscape surrounding the medical marijuana program. LARA is the main regulatory authority for the licensing of marijuana businesses.

Under the MMFLA, LARA administers five types of "state operating licenses" for medical marijuana businesses: (a) a "grower" license, (b) a "processor" license, (c) a "secure transporter" license, (d) a "provisioning center" license and (e) a "safety compliance facility" license. There are no stated limits on the number of licenses that can be made available on a state level; however, LARA has discretion over the approval of applications and municipalities can pass additional restrictions.

On November 6, 2018, Michigan voters approved Proposal 1, to make marijuana legal under state and local law for adults 21 years of age or older and to control the commercial production and distribution of marijuana under a system that licenses, regulates, and taxes the businesses involved. The act will be known as the Michigan Regulation and Taxation of Marihuana Act.¹⁵ According to Proposal 1, LARA is required to start accepting applications for retail (recreational) dispensaries within 12 months of the measure's effective date.¹⁶

Michigan License

State operating licenses for marijuana businesses have a 1 year term and are annually renewable if certain conditions are met: (a) the renewal application is submitted prior to the date the license expires, or within sixty (60) days of expiration if all other conditions are met and a late fee is paid, (b) the licensee pays the regulatory assessment fee set by LARA and (c) the licensee continues to meet the requirements to be a licensee under the Michigan Cannabis Regulations. Each renewal application is reviewed by LARA, but there is no guarantee of a timely renewal. There is no ultimate expiry after which no renewals are permitted.

Michigan Regulations

Products may be purchased in a retail setting from a provisioning center by registered qualified patients or registered primary caregivers connected to a registered qualifying patient (each, a "**Michigan Qualified Purchaser**"); in each case, Michigan Qualified Purchasers must present a valid registry identification card issued by LARA (a "**Michigan Registry ID**"). For a Michigan Qualified Purchaser to receive Products, provision centers must deploy an inventory control and tracking system that is capable of interfacing with the statewide monitoring system to determine (a) whether a Michigan Qualified Purchaser holds a Michigan Registry ID and (b) whether the sale or transfer will exceed the then-current daily and monthly purchasing limit for the holder of the Michigan Registry ID.

In order to receive a Michigan Registry ID, an applicant must provide: a completed application dated within one year of submission, a written certification from a physician with a bona-fide physician-patient relationship to the underlying patient, the application or renewal fee, contact information for the patient, caregiver (if applicable) and physician, as well as proof of Michigan residency.

[http://www.legislature.mi.gov/\(S\(zup32t1bwxnrdiax0r4ji2p\)\)/mileg.aspx?page=getobject&objectname=mcl-Act-282-of2016&query=on&highlight=marihuana%20AND%20tracking](http://www.legislature.mi.gov/(S(zup32t1bwxnrdiax0r4ji2p))/mileg.aspx?page=getobject&objectname=mcl-Act-282-of2016&query=on&highlight=marihuana%20AND%20tracking).

14 LARA's "Emergency Rules" were filed on May 30, 2018 and updated in September and October 2018. "Department of Licensing and Regulatory Affairs, Bureau of Medical Marihuana Regulation, Medical Marihuana Facilities Licensing Act, Emergency Rules Filed with the Secretary of State." (2018 September 11). Retrieved from https://www.michigan.gov/documents/lara/Medical_Marihuana_Facilities_Licensing_Emergency_Rules_9-7-18_634831_7.pdf.

15 Coalition to Regulate Marijuana Like Alcohol. Initiative Text. Retrieved from <https://www.regulatemi.org/initiative/>

16 Michigan Proposal 1, Marijuana Legalization Initiative (2018). Retrieved from [https://ballotpedia.org/Michigan_Proposal_1_Marijuana_Legalization_Initiative_\(2018\)](https://ballotpedia.org/Michigan_Proposal_1_Marijuana_Legalization_Initiative_(2018)).

For registered qualifying patients, the daily purchasing limit is 2.5 ounces, and for registered primary caregivers, the daily purchasing limit is 2.5 ounces per underlying registered qualifying patient that the registered primary caregiver is connected with through the registration process. Finally, the licensee shall verify in the statewide monitoring system that the sale or transfer does not exceed the monthly purchasing limit of ten (10) ounces of marijuana product per month to a qualifying patient, either directly or through the qualifying patient's registered primary caregiver.¹⁷

Allowable forms of medical marijuana includes smokable dried flower, dried flower for vaporizing and marijuana infused products, which are defined under the Act to include topical formulations, tinctures, beverages, edible substances or similar products containing usable marijuana that is intended for human consumption in a matter other than smoke inhalation. Under the Michigan Cannabis Regulations, marijuana-infused products shall not be considered food.

Qualifying conditions for the medical marijuana program in Michigan are the following:

- Cancer, glaucoma, positive status for human immunodeficiency virus, acquired immune deficiency syndrome, hepatitis C, amyotrophic lateral sclerosis, Crohn's disease, agitation of Alzheimer's disease, nail patella or the treatment of these conditions;
- A chronic or debilitating disease or medical condition or its treatment that produces 1 or more of the following: cachexia or wasting syndrome; severe and chronic pain; severe nausea; seizures, including but not limited to those characteristic of epilepsy; or severe and persistent muscle spasms, including but not limited to those characteristic of multiple sclerosis;
- Post-Traumatic Stress Disorder (PTSD); and/or
- Any other medical condition or its treatment approved by the department under the Michigan Cannabis Regulations.

In the state of Michigan, only cannabis that is grown and manufactured in the state can be sold in the state.

Reporting Requirements

Pursuant to the requirements of the MTA, Michigan selected Franwell's METRC software as the state's third-party solution for integrated marijuana industry verification. Using METRC, regulators are able to track third party inventory, permissible sales and seed-to-sale information. Additionally, provisioning centers can use the METRC API to connect their own inventory management and/or point-of-sale systems to verify the identity as well as permissible sales for Michigan Qualified Purchasers.¹⁸

¹⁷ Michigan Department of Licensing and Regulatory Affairs. Medical Marijuana Regulation, Rule 41: Daily Purchasing Limits; Provisioning Center. Retrieved from https://www.michigan.gov/lara/0,4601,7-154-79571_83994-454569--,00.html.

¹⁸ Michigan Department of Licensing and Regulatory Affairs. "LARA - UPDATED - LARA Announces Medical Marijuana Educational Sessions." (2017 October 9). Retrieved from https://www.michigan.gov/lara/0,4601,7-154-10573_11472-449362--,00.html.

Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, a provisioning center is required to:

- Maintain and submit a security operations plan that includes the following at a minimum¹⁹:
 - Escorts for all non-employee personnel in limited access areas.
 - Secure locks for all interior rooms, windows and points of entry and exits with commercial grade, nonresidential door locks.
 - An alarm system. Licensees will make all information related to the alarm system including monitoring and alarm activity available to LARA.
 - A video surveillance system that, at a minimum, consists of digital or network video recorders, cameras, video monitors, digital archiving devices and a color printer capable of delivering still photos.
 - 24-hour surveillance footage with fixed, mounted cameras, tamper/theft proof secured storage mediums and a notification system for interruption or failure of surveillance footage or storage of surveillance footage. All surveillance footage must be of sufficient resolution to identify individuals, have accurate time/date stamps and be stored for a minimum of 14 days unless state regulators notify that such recordings may be destroyed. Surveillance footage must cover:
 - All activity within 20 feet of all points of entry and exit to a facility.
 - Any areas where marijuana products are weighed, packed, stored loaded, and unloaded for transportation, prepared or moved within the marijuana facility.
 - Limited-access areas and security rooms. Transfers between rooms must be recorded.
 - Areas storing a surveillance system storage device with at least 1 camera recording the access points to the secured surveillance recording area.
 - All entrances and exists to the building must be recorded from both indoor and outdoor vantage points. The areas of entrance and exit between marijuana facilities at the same location if applicable, including any transfers between marijuana facilities.
 - Point of sale areas where Michigan Marijuana products are sold and displayed for sale.

¹⁹ Michigan Department of Licensing and Regulatory Affairs. Medical Marihuana Regulation, Rule 27: Security Measures; Required Plan; Video Surveillance System. Retrieved from https://www.michigan.gov/lara/0,4601,7-154-79571_83994-454548--,00.html.

- State access to view and obtain copies of any surveillance footage through LARA or related investigators, agents, auditors and/or state police. A facility shall also provide copies of recordings to LARA upon request.
- Logs of the following:
 - The identities of the employee or employees responsible for monitoring the video surveillance system.
 - The identity of the employee who removed the recording from the video surveillance system storage device and the time and date removed.
 - The identity of the employee who destroyed any recording.
- Maintain marijuana storage plan for provisioning centers that includes the following at a minimum:
 - A secured limited access area for inventories of Products.
 - Clearly labeled containers (a) marked, labeled or tagged, (b) enclosed on all sides and (c) latched or locked to keep all contents secured within. All such containers must be identified and tracked in accordance with the MTA.
 - A locked area for chemical and solvents separate from Products.
 - Separation of marijuana-infused products from toxic or flammable materials.
 - A sales or transfer counter or barrier separated from stock rooms to ensure registered qualifying patients or registered primary caregivers do not have direct access to Products

Oklahoma

Oklahoma Regulatory Landscape

In April 2015, the governor of Oklahoma signed House Bill 2154 into law allowing the sale of CBD oil with less than 0.3% THC. On June 26, 2018, Oklahoma voters approved State Question 788, which legalized medical cannabis. Oklahoma established the Oklahoma Medical Marijuana Authority ("**OMMA**") to oversee the state's medical cannabis program. The OMMA is responsible for licensing, regulating, and administering the program as authorized by state law. Operating under the Oklahoma State Department of Health, the primary goal of the OMMA is to ensure safe and responsible practices for the people of Oklahoma.

Licensing

The OMMA manages licensing for medicinal cannabis patients and their caregivers, as well as grower, processor and dispensary operators. Applicants must be resident of Oklahoma with at least 75% ownership held by an Oklahoma resident. All owners must present an Oklahoma Secretary of State Certificate of Good Standing and demonstrate exemplary background checks. Licenses are valid for one year from the date issued unless revoked by the OMMA and may be renewed prior to expiration. Upon receipt of a license, the grower, processor or dispensary must immediately register with the Oklahoma

Bureau of Narcotic and Dangerous Drugs Control and prior to any medical cannabis or medical cannabis products are present at the business.

Storage and Security

A cannabis transportation license is issued to qualifying applicants for a commercial license at the time of approval. The transportation license allows the holder to transport cannabis from an Oklahoma licensed dispensary, grower, processor to an Oklahoma licensed dispensary, grower processor or researcher. All medical cannabis must be transported in a locked container shielded from public view and clearly labeled as “Medical Marijuana or Derivative.”

Oklahoma uses the BioTrack THC as the central Trace and Tracking (T&T) system to oversee inventory of licensed cannabis operations across the state. All cultivation and manufacturing facilities and retail dispensaries are required to utilize an inventory management system to record certain information depending on the license type. For a grower, such information includes the amount of cannabis harvested, sold to a process or dispensary, or dried and on hand. For a processor, details on the amount of cannabis purchased from a grower, or sold to a researcher and the amount of cannabis waste must be accounted for in inventory. The licensee must also document with detailed explanations any discrepancies for cannabis that cannot be account for or is considered overage. The licensee is required to document the ‘chain of custody’ of all cannabis and cannabis-related products with frequent on-going inventory reviews in order to detect any diversion, theft or loss in a timely manner. The system must be able to accurately trace the timeline from the time a cannabis plant is propagated to the time it is sold to a patient or caregiver. Traceability is a requirement in the event of a serious adverse event or recall to correctly source the cannabis product.

Reporting Requirements

The state requires all commercial licensees to submit monthly reporting to the Oklahoma Department of Health. Reports are considered untimely if not received by the state by the 15th of each month for activity from the preceding month. The report must include the amount purchased from a licensed process and/or grower, the amount sold to a licensee and the type of licensee, total sales to patients and caregivers as well as taxes collected from sales. If necessary, detailed explanations of inventory discrepancies must be included. Inaccurate reporting may result in fines and failure to report timely or to correct deficiencies within 30 days of department notification may lead to license revocation.

RISK FACTORS

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

The acquisition of any of the securities of the Company is speculative, involving a high degree of risk and should be undertaken only by Persons whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the securities of the Company should not constitute a major portion of an individual’s investment portfolio and should only be made by Persons who can afford a total loss of their investment. Company

Shareholders should evaluate carefully the following risk factors associated with the Company's securities, along with the risk factors described elsewhere in this AIF.

Risks Related to the Operations of the Company

The Company has a limited operating history.

USA Inc. (now OpCo) was formed on May 5, 2014, and is in early development with approximately four (4) years of operating history. Because of the Company's limited operating history, historical financial data may be of limited value in estimating future dividends and expenses. It is difficult to make accurate predictions and forecasts given the lack of extended operating history. This is compounded by the fact that the company operates in the legal cannabis industry, one of the fastest transforming industries in North America. There is no guarantee our Products or services will remain attractive to potential and current users as the industry undergoes rapid change. Even if the Company accomplishes its objectives, it may not generate the positive cash flows or returns it anticipates. Any budgeted expense levels are based in part on the Company's expectations concerning future revenues. Unanticipated problems, expenses and delays are frequently encountered in establishing a new business and developing new facilities. These include, but are not limited to, inadequate funding, competition, facility development, the inability to employ or retain talent, inadequate sales and marketing, and regulatory concerns. The failure by the Company or the Operating Companies to meet any of these conditions would have a material adverse effect upon the Company. No assurance can be given that the Company or the Operating Companies can or will ever be successful in their operations and operate profitably.

The Company's ability to identify and engage manufacturing and licensing affiliates will be subject to factors beyond the Company's control, and there is no guarantee that the Company will establish such relationships.

The Company's growth strategy depends in large part on its ability to timely and efficiently identify and engage in manufacturing and licensing arrangements with Operating Companies which can operate facilities on a profitable basis. Delays or failures in acquiring or developing these relationship could materially and adversely affect planned growth. The success of any planned expansion will depend upon numerous factors, many of which are beyond the Company's control, including the following:

- The ability to identify and secure an adequate supply of available and suitable manufacturing and licensing affiliates;
- the availability and retention of qualified operating personnel;
- the increases in minimum wage and other operating costs;
- volatility of commodity prices;
- consumer preferences, spending patterns and demographic trends;
- securing required governmental approvals and permits;
- changes in state and federal law or enforcement priorities;
- competition in current and future markets and competitive discounting;
- availability of capital; and

- the possibility of unforeseen events affecting the cannabis industry generally, such as changes in laws or enforcement of current laws related to the cannabis industry.

The Company faces intellectual property risks including regulatory and competitive challenges.

The Company has certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patents and proprietary processes. At present, the Company holds various intellectual property rights, including the Dixie IP. The Company will rely on this intellectual property, know-how and other proprietary information, and require employees, consultants and suppliers to sign confidentiality agreements. However, these confidentiality agreements may be breached, and the Company may not have adequate remedies for such breaches. Third parties may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology rights. Third parties may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner. Given the high reliance on intellectual property, any loss of intellectual property protection may have a material adverse effect on the Company's business, results of operations or prospects.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections, such as federal trademark and patent protection of 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, whether on a federal, state or local level. While many states do offer the ability to protect trademarks independent of the federal government, patent protection is wholly unavailable on a state level, and state-registered trademarks provide a lower degree of protection than federally-registered marks.

The failure to enforce and maintain the Company's intellectual property rights could enable others to use names confusingly similar to Dixie, which could adversely affect the value of the brand.

The success of the Company depends on its continued ability to use the Dixie trademarks in order to increase brand awareness. In that regard, the Company believes that the Dixie brand is a valuable asset that is critical to the Company's success. The unauthorized use or other misappropriation of the Dixie brand could diminish the value of the Company's business concept and may cause a decline in revenue.

The Company depends on the services of key executives, the loss of whom could materially harm the Company's business and its strategic direction if it were unable to replace them with executives of equal experience and capabilities.

Senior executives Charles Smith and Vincent Keber are important to the Company's success because they are instrumental in setting strategic direction, operating the business, identifying expansion opportunities and arranging any necessary financing. Losing the services of these individuals could adversely affect the business of the Company until suitable replacements could be found.

The Company's business is dependent on the availability and retention of qualified operators.

The Company's success depends in part upon its ability to sufficiently attract, motivate and license Operating Companies. The inability to recruit and retain these operators may delay the planned production from new facilities, which could harm the Company's business.

The Company's operations are susceptible to factors beyond its control.

Various factors beyond our control, including adverse weather conditions, governmental regulation, production, availability, number and geographic location of facilities may affect our costs or cause a disruption in the productions process, which could adversely affect the operating results of the facilities and consequently the Company's profitability.

Changes in consumer preferences could negatively impact demand for Dixie Products.

The Company's continued success depends, in part, upon the popularity of cannabis, cannabis Products and/or hemp-derived Products produced by Operating Companies. The Company's success will depend in part on its ability to anticipate and respond to changing consumer preferences and purchasing habits, as well as other factors affecting the medical and retail cannabis industry, including new market entrants, changes in laws, and demographic changes. The failure to accurately predict market behaviors and competitive factors may adversely affect business and operations of the Company.

If the Operating Companies cannot obtain the necessary permits, licenses and approvals necessary to acquire, develop and produce Dixie branded Products, the Company's growth and success could be negatively impacted.

The Company's business is subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment.

In addition, each of the facilities will be subject to licensing and regulation by a number of governmental authorities, which may include health, sanitation, safety, fire, building, environmental and other agencies in the state or municipality in which the facility is located. Difficulties in obtaining or failure to obtain the required licenses or approvals could delay or prevent the development of a facility in a particular area. The Operating Companies are also subject to federal and state environmental regulations. More stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or prevent the development of new Operating Companies in a particular area. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause material adverse effects to the Company.

Operating Companies may also be required to obtain or renew further government permits and licenses for their current and contemplated operations. Obtaining, amending or renewing the necessary governmental permits and licenses can be a time-consuming process potentially involving numerous regulatory agencies, public hearings and costly undertakings on the Operating Companies' part. The duration and success of the Operating Companies' efforts to obtain, amend and renew permits and licenses are contingent upon many variables not within their control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. The Operating Companies may not be able to obtain, amend or renew permits or licenses that are necessary to their operations. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the Operating Companies. To the extent necessary permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Operating Companies may be curtailed or prohibited from proceeding with their ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a material adverse effect on the Company's business, financial condition, results of operations or prospects given its high dependence on Operating Companies for revenue generation.

The Operating Companies' results can be adversely affected by disruptions or events, such as the impact of severe weather conditions and natural disasters.

Severe weather conditions, natural disasters, terrorist activities, health epidemics or pandemics or the prospect of these events can have an adverse impact on consumer spending and confidence levels or on other factors that affect our results and prospects, such as commodity costs. Our receipt of proceeds under any insurance we maintain with respect to certain of these risks may be delayed or the proceeds may be insufficient to offset our losses fully.

The Operating Companies are also subject to environmental risk and regulation, which can affect their business operations and profitability.

The Operating Companies' operations are subject to environmental regulation in the various jurisdictions in which they operate. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increase fines and penalties for non-compliance, implement stricter environmental assessments of proposed projects and heighten the degree of responsibility for companies and their officers, directors (or the equivalent thereof) and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Operating Companies' operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Operating Companies' operations. To the extent such approvals are required and not obtained, the Operating Companies may be curtailed or prohibited from their proposed production of medical marijuana or from proceeding with the development of their operations as currently proposed. This would in turn affect the business, revenue and profitability of the Company.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company and Operating Companies may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical marijuana, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

Product Liability may be incurred in association with Dixie Products.

As the Operating Companies are involved in the manufacturing and distribution of Products designed to be ingested by humans, they face an inherent risk of exposure to Product liability claims, regulatory action and litigation if Dixie Products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of marijuana involve the risk of injury to consumers due to tampering by unauthorized third parties or Product contamination. Previously unknown adverse reactions resulting from human consumption of marijuana alone or in combination with other medications or substances could occur. Given the Operating Companies' position as manufacturers, distributors and retailers of adult-use and medical marijuana, and the Company's role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of adult-use or medical marijuana, the Company may be subject

to various Product liability claims, including, among others, that the marijuana Product caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

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

The Company's Products may be subjected to Product recalls that would affect its brand equity.

Manufacturers and distributors of Products are sometimes subject to the recall or return of their Products for a variety of reasons, including Product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause unexpected expenses due to the recall itself and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a Product recall may require significant management attention. Although the Company has detailed procedures in place for testing Dixie Products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen Product recalls, regulatory action or lawsuits. Additionally, if one of the Company's brands were subject to recall, the image of that brand and the Company could be harmed. Additionally, Dixie Product recalls could lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

The Company will have limited control over the operations and activities of the Operating Companies.

The Company will have limited control under the license agreements over the operations and activities of the Operating Companies. Since the income of the Company will be highly dependent upon the activities and operations of the Operating Companies and any other agreement with such Operating Companies, any substantial alteration of the Operating Companies' business, operations, or production could adversely affect the income of the Company.

Due to the Company's involvement in the cannabis industry, it may have a difficult time obtaining the various insurances that are desirable to operate the business, which may expose the Company to additional risk and financial liabilities.

Insurance that is otherwise readily available to other businesses, such as workers compensation, general liability, and directors and officers insurance, is more difficult for the Company to find, and more expensive, because the Company provides services to and contracts with manufacturers and distributors in the cannabis industry. There are no guarantees that the Company will be able to find such insurances in the future, or that the cost will be affordable. If the Company is forced to go without such insurances, it may prevent it from entering into certain business sectors, may inhibit growth, and may expose the Company to additional risk and financial liabilities.

The Company is dependent on the success of the Operating Companies.

The Company's success will depend largely on the continued efforts of its Operating Companies. The loss of the services of these companies for any reason would have a material adverse effect on the Company and on the value of an investment in the Company. There can be no assurance that the Company will succeed in recruiting and retaining qualified operators in the future. Any delay or failure in locating key operators would likely have a material adverse effect on the Company's development. The Company may not be able to require all Operating Companies or their employees to enter non-competition agreements with the Company, and those companies or employees could leave the relevant facility to form or join a competitor.

Global financial conditions may not be conducive to the operations and profitability of the Company.

Following the onset of the credit crisis in 2008, global financial conditions were characterized by extreme volatility and several major financial institutions either went into bankruptcy or were rescued by governmental authorities. While global financial conditions subsequently stabilized, there remains considerable risk in the system given the extraordinary measures adopted by government authorities to achieve that stability. Global financial conditions could suddenly and rapidly destabilize in response to future economic shocks, as government authorities may have limited resources to respond to future crises.

Future economic shocks may be precipitated by a number of causes, including a rise in the price of oil, geopolitical instability and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Company's ability to obtain equity or debt financing in the future on terms favorable to the Company. Additionally, any such occurrence could cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. Further, in such an event, the Company's operations and financial condition could be adversely impacted.

Furthermore, general market, political and economic conditions, including, for example, inflation, interest and currency exchange rates, structural changes in the cannabis industry, supply and demand for commodities, political developments, legislative or regulatory changes, social or labour unrest and stock market trends would affect the Company's operating environment and its operating costs, profit margins and share price. Any negative events in the global economy could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Risks Related to the Operating Companies and the Cannabis and Marijuana Industry in the U.S.

The Operating Companies have limited experience operating cannabis manufacturing and distribution facilities.

The Operating Companies have limited experience in the industry. There is no guarantee that each of the Operating Companies will continue to effectively manage its business, pay its debts and obligations, or be profitable. Should the Operating Companies be unable to maintain profitability, this would negatively impact the business and operations of the Company.

The Operating Companies have limited operating history given the nascent nature of the industry.

As a high growth enterprise, the Company and the Operating Companies do not have a lengthy history of profitability. The Operating Companies are therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. Given these risks, there is no assurance that the Company will

be successful in achieving a return on Shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

The Operating Companies' business plans are unproven.

The commercial acceptance of the Operating Companies' cannabis production is still uncertain. If consumers do not respond favorably to their Products, or if it takes the Operating Companies longer to manufacture, distribute and sell the licensed Products or establish a customer base than the Company expects, revenues will be adversely affected, and the Company's cash flows would suffer.

Default by the Operating Companies under non-licensing agreements with the Company could have a material impact on the Company.

The Company expects to enter into various transactions with the Operating Companies in addition to licensing agreements, including loans, advisory agreements, joint venture agreements and equity investments in Operating Companies. Default by Operating Companies under these non-license agreements could substantially reduce expected fee income, and in the case of defaulted loans or equity investments in failing Operating Companies, a decrease in assets of the Company that could materially affect the financial results of the Company.

The success of the Company and its Operating Companies is impacted by public opinion and perception, which are inconsistent and may change over time.

Government policy changes or public opinion may have a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. Public opinion and support for medical and adult-use marijuana has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use marijuana, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). A negative shift in the public's perception of 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 and/or adult-use 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, results of operations or prospects.

Unfavorable publicity or consumer perception may impact the brand equity of Dixie and the business and profitability of the Company.

The Company believes the adult-use and medical marijuana industries are highly dependent upon consumer perception regarding the safety, efficacy and quality of the marijuana produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of marijuana Products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the marijuana market or any particular Product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand for adult-use or medical marijuana and on the business, results of operations, financial condition, cash flows or prospects of the Operating Companies and the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of marijuana in general, or associating the

consumption of adult-use and medical marijuana with illness or other negative effects or events, could have such a material adverse effect. There is no assurance that such adverse publicity reports or other media attention will not arise.

The Company's success depends on the Operating Companies' ability to compete effectively in the medical and retail cannabis industries.

The medical and retail cannabis industries are highly competitive with respect to price, quality and location. The Operating Companies will compete with numerous established competitors possessing substantial financial, marketing, personnel and other resources. The Company also expects to face competition from a broad range of new medical and retail cannabis producers and suppliers. While presently the marijuana industry is generally comprised of individuals and small to medium-sized entities, the risk remains that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of larger dispensaries and cultivation facilities. In doing so, these larger competitors could establish price setting and cost controls which would effectively "price out" many of the individuals and small to medium-sized entities that currently make up the bulk of the participants in the varied businesses operating within and in support of the medical and adult-use marijuana industries. While the trend in most state laws and regulations seems to be to deter this type of takeover, the industry remains quite nascent, so the future landscape remains largely unknown.

The Operating Companies may face intense competition and may not be able to operate profitably in their respective markets should industry regulations become more attractive.

The market for services that the Operating Companies offer will most likely increase in competitive pressure if more states permit the use of medicinal and retail cannabis. The increased competition may hinder their ability to successfully market their Products and services. They may not have the resources, expertise or other competitive factors to compete successfully in the future. We expect the Operating Companies to face additional competition from existing competitors and new market entrants in the future. Some of such competitors will have greater resources than we do. As a result, these competitors may be able to:

- develop and expand their Product and service offerings more rapidly;
- adapt to new or emerging changes in customer requirements more quickly;
- take advantage of acquisition and other opportunities more readily; and
- devote greater resources to the marketing and sale of their Products and adopt more aggressive pricing policies than we can.

Competitive pressures may arise from synthetic production and technological advances and change the landscape and profitability of the industry.

There is a possibility that the pharmaceutical industry may attempt to dominate the legal marijuana industry through the development and distribution of synthetic Products, which emulate the effects and treatment of organic marijuana. If they are successful, the widespread popularity of such synthetic Products could change the demand, volume and profitability of the marijuana industry. This could adversely affect the Company's ability to secure long-term profitability and success through the sustainable and profitable operation of its business. There may be unknown additional regulatory fees and taxes that may be assessed in the future.

Some of the business activities of the Operating Companies, while believed to be compliant with applicable U.S. state law, are illegal under U.S. federal law. If the Operating Companies are closed by law enforcement authorities, it will materially and adversely affect the Company's business.

The success of the business strategy of the Company depends on the legality of the marijuana industry. The political environment surrounding the marijuana industry in general can be volatile and the regulatory framework remains in flux.

At present, the medical marijuana industry is legalized in the U.S. in thirty states, plus the District of Columbia, each of which have passed laws either decriminalizing or legalizing the use of medical marijuana. Eight U.S. states, namely Colorado, Washington, Oregon, Alaska, Nevada, California, Maine, Massachusetts and Washington, D.C., have legalized the retail sale of cannabis. However, under United States federal law, the possession, use, cultivation, and transfer of cannabis is illegal (see *Regulatory Overview* for more details on the U.S. regulatory environment). The federal, and, in some cases, state law enforcement authorities have frequently closed down cannabis dispensaries and investigated and/or closed manufacturers that provide medicinal marijuana. To the extent that an affected dispensary is a purchaser of cannabis from the Operating Companies, it will affect the Company's returns.

Both federal and state enforcement efforts to reduce the number of new dispensaries entering the cannabis industry would have a material effect on the Company's business. If one or more of the Operating Companies is forced to close, it would have a negative effect on the Company's business and overall profitability.

Because the business activities of the Operating Companies is illegal under federal law, the Company may be deemed to be aiding and abetting illegal activities through the Products and services that the Company provides to those companies.

The Company may be subject to actions by law enforcement authorities, which would materially and adversely affect the Company's business. Under United States federal law, the possession, use, cultivation, and transfer of cannabis is illegal. As a result, it is possible that law enforcement authorities may seek to bring an action or actions against the Company, and/or the Operating Companies, including but not limited to a claim of aiding and abetting another's criminal activities. Such an action would have a material effect on the Company's business. (see *Regulatory Overview* for more details on the U.S. regulatory environment).

The Operating Companies face the risk of civil asset forfeiture as their business activities are presently illegal under U.S. federal law.

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry which is either used in the course of conducting such business, or is the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could potentially be subject to forfeiture. There is therefore a risk that Operating Companies' assets may be subject to seizure under law, which would affect the business and profitability of the Company.

The medicinal and retail cannabis industry is in a formational stage and state and local laws and regulations are likely to change as the industry matures.

In areas where the medicinal and retail use of cannabis is legal, state and local governments may enact laws and regulations that affect the Operating Companies, their purchasers, and end-users of cannabis

Products. These laws and regulations are subject to change, and are likely to change, as the cannabis industry matures.

Such shifts in the regulatory or political realm may have a drastic impact on the industry as a whole and adversely impact the Company's business, results of operations, financial condition or prospects. In addition, delays in the enactment of new state or federal regulations could restrict the ability of the Company to reach strategic growth targets and lower return on investor capital. The strategic growth strategy of the Company is reliant upon certain federal and state regulations being enacted to facilitate the legalization of medical and adult-use marijuana. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Company, and thus, the effect on the return of investor capital, could be detrimental. The Company is unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

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

The Company is aware that multiple states are considering special taxes or fees on businesses in the marijuana industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could have a material adverse effect upon the Company's business, results of operations, financial condition or prospects.

The changes in state and local laws and regulations can increase costs of operations for the Company and Operating Companies.

The rulemaking process for cannabis operators at the state level (in any state) will be ongoing and will likely result in frequent changes. As a result, a compliance program is essential to manage the regulatory risk. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis business.

The Operating Companies may also incur increased administrative expenses to monitor and comply with new laws and regulations. To the extent any cost of compliance affects the Operating Companies' revenue, it may affect the Company's returns and would have a material adverse effect on the Company's business.

In U.S. states where medicinal or retail cannabis is permitted, state and local laws and regulations could adversely affect the Operating Companies, including the placement of limits on the amount of Product the Operating Companies may develop, grow or sell, which would materially and adversely affect the Operating Companies' and the Company's business.

In some areas, state and local laws may limit the number of plants or Products that Operating Companies may develop, grow, or sell at any time; limits may be placed on the number of purchasers Operating

Companies may sell to or service; and new or increased taxes may be levied against Operating Companies. In addition, the enforcement of identical rules or regulations relating to medicinal or retail cannabis may vary from municipality to municipality. These state and local laws and regulations may adversely impact the Operating Companies' revenue and have a material effect on the Company's business.

Operating Companies may be subject to unfavorable tax treatment by the IRS

Under Section 280E ("**Section 280E**") of the United States Internal Revenue Code of 1986, as amended (the "**Internal Revenue Code**"), "no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the CSA) which is prohibited by Federal law or the law of any State in which such trade or business is conducted." This provision has been applied by the U.S. Internal Revenue Service to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its U.S. income tax expenses.

In U.S. states where medicinal or retail cannabis is permitted, local zoning laws and regulations could adversely affect the Operating Companies and their purchasers, including causing some of the Operating Companies or their purchasers to close, which would materially and adversely affect the Operating Companies' and Company's business.

In some cities or counties, a cannabis business is prohibited from being located within a certain distance from schools or churches, or otherwise prohibited from operating in areas that are not zoned for cannabis sale or cultivation. These local laws and regulations may cause some Operating Companies and their purchasers (such as cannabis dispensaries) to close, impacting the Operating Companies' revenue and having a material effect on the Company's business.

Due to the illegality of the business activities of Operating Companies, they lack access to U.S. bankruptcy protections, which can reduce investment loss.

As the use of cannabis is illegal under federal law, many courts have denied bankruptcy protections for cannabis businesses, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Operating Companies were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to them, which would have a material adverse effect on the Company's ability to recoup its losses as a creditor.

The cannabis industry is experiencing rapid growth and consolidation that may intensify competition and cause the Operating Companies to lose key relationships.

The medicinal and retail cannabis industry is undergoing rapid growth and substantial change, which has resulted in increasing consolidation and formation of strategic relationships. We expect this consolidation and strategic partnering to continue. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including:

- The Operating Companies could lose strategic relationships if their partners are acquired by or enter into relationships with a competitor (which could cause the Operating Companies to lose access to distribution, content, technology and other resources);

- The relationship between the Operating Companies and their strategic partners may deteriorate and cause an adverse effect on the Company's business; and
- The Operating Companies' current competitors could become stronger, or new competitors could form consolidations.

Any of these events could put the Operating Companies at a competitive disadvantage, which could cause them to lose customers, revenue and market share. Consolidation could also force the Operating Companies to expend greater resources to meet new or additional competitive threats, which could also harm their operating results.

If no additional U.S. states allow the medicinal or recreational use of cannabis, or if one or more U.S. states that currently allow it reverses its position, we may not be able to continue our growth, or the market for our Products and services may decline.

Currently, 30 U.S. states and the District of Columbia allow the use of medicinal cannabis, while Colorado, Washington, Oregon, Alaska Nevada, California, Maine, Massachusetts and Washington, D.C. have legalized the retail sale of cannabis. While we believe that the number of states that allow the use of medicinal and retail cannabis will grow, there can be no assurance that it will, and if it does not, there can be no assurance that the 30 existing states and/or the District of Columbia will not reverse their position and disallow it. If either of these things were to occur, then not only would the growth of the Operating Companies' business be materially impacted, the Operating Companies could experience declining revenue as the market for our Products and services declines.

Given limitations of data and transparency within the industry, there is difficulty in forecasting market demand.

The Company and Operating Companies must rely largely on their own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the industry. A softer demand for Dixie Products could materialize because of competition, technological change or other factors and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Lack of reliable data on the medical and adult-use marijuana industry may reduce the efficacy of business planning.

Due to recent and ongoing regulatory and policy changes in the medical and adult-use marijuana industry, the market data available is limited and unreliable. Federal and state laws prevent widespread participation and hinder market research. Therefore, market research and projections by the Company and the Operating Companies of estimated total retail sales, demographics, demand, and similar consumer research, are based on assumptions from limited and unreliable market data, and generally represent the personal opinions of the Company's management team.

Because the Operating Companies will be in the cannabis industry, they will have a difficult time obtaining the various insurances that are desired to operate their businesses, which may expose them to additional risk and financial liabilities.

Insurance that is otherwise readily available to other businesses, such as workers compensation, general liability, and directors and officers insurance, will be more difficult for the Operating Companies to find, and more expensive, because they are engaged in the cannabis industry. There are no guarantees that they will be able to find such insurances in the future, or that a cost will be affordable to them. If they are

forced to go without such insurances, it may prevent them from entering into certain business sectors, may inhibit their growth, and may expose them to additional risk and financial liabilities.

Because the Operating Companies will be in the cannabis industry, they will have a difficult time obtaining the various business services, such as banking and credit card services, that are desired to operate their businesses, which may expose them to additional risk and financial liabilities.

Most banks and credit card companies in the U.S. adhere to federal policies that are currently in flux and that otherwise disallow such financial service providers to service a business involved in the cannabis industry. Because of these policies, Operating Companies will have difficulty finding financial service providers that are otherwise readily available to other businesses. There are no guarantees that Operating Companies will be able to find such financial services in the future, or that the cost will be affordable to them. If they are forced to go without such services, it may prevent them from entering into certain business sectors, may inhibit their growth, and may expose them to additional risk and financial liabilities.

Given the illegality of cannabis under the U.S. federal law, there is uncertainty in the enforceability of contracts and remedies available for breach of contracts.

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

Operating Companies in the cannabis industry may have difficulty obtaining and maintaining various business services from third party providers.

Any adverse change in the enforcement of United States cannabis laws, regulatory or political change, additional scrutiny by regulatory authorities, adverse change in public perception in respect of the consumption of marijuana or otherwise, could cause third party service providers to the Company and/or the Operating Companies to suspend or withdraw their services, which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

Given that cannabis-related business is a crime under federal laws, the Company would have limited trademark protection.

The Company will not be able to register any United States federal trademarks for its cannabis Products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis Products. As a result, the Company likely will be unable to protect its cannabis Product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the states in which it operates by one or more other persons could have a material adverse effect on the value of such trademarks.

The enforcement priorities of the U.S. federal government are unpredictable and subject to change.

Marijuana is illegal under U.S. federal law and is listed as a Schedule I hallucinogenic substance pursuant to the CSA. The federal prohibition on cannabis is in conflict with the laws of certain states that have

created regulated cannabis industries. The federal response to this conflict is unknowable and subject to change; in particular, recent changes in the U.S. presidential administration make any federal response extremely uncertain.

In response to the inconsistent treatment of cannabis between the federal and state level, the Cole Memo acknowledged that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several states have enacted laws relating to cannabis for medical purposes.

The Cole Memo outlined certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memo noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice did not provide specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memo standard.

In light of limited investigative and prosecutorial resources, the Cole Memo concluded that the Department of Justice should focus on addressing only the most significant threats related to cannabis. States where cannabis have been legalized were not characterized as a high priority. In March 2017, newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memo had merit; however, he disagreed that it had been implemented effectively and, on January 4, 2018, Attorney General Jeff Sessions issued the Sessions Memorandum, which rescinded the Cole Memo. The Sessions Memorandum rescinded previous nationwide guidance specific to the prosecutorial authority of United States Attorneys relative to cannabis enforcement on the basis that they are unnecessary, given the well-established principles governing federal prosecution that are already in place. Those principals are included in chapter 9.27.000 of the United States Attorneys' Manual and require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes on the community.

As a result of the Sessions Memorandum, federal prosecutors will now be free to utilize their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws that may be inconsistent with federal prohibitions. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and as a result it is uncertain how active federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Medical cannabis is currently protected against enforcement by enacted legislation from United States Congress in the form of the Leahy Amendment to H.R.1625 – a vehicle for the Consolidated Appropriations Act of 2018, which similarly prevents federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding. Due to the ambiguity of the Sessions Memorandum, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Should this occur, it could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation and prospects, even if such proceedings were concluded successfully in favor of the Company. In the extreme case, such proceedings could ultimately involve the prosecution of key executives of the Company or the seizure of corporate assets.

There is no guarantee that the federal government will not proceed to strictly enforce the CSA against the Operating Companies, their affiliates, and/or those parties with whom they do business, including the Company.

The cannabis industry in the U.S. may be subject to FDA regulations.

Should the federal government legalize cannabis, it is possible that the FDA would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including good manufacturing practices related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. The Operating Companies' inability to comply with the regulations or registration as prescribed by the FDA may have an adverse effect on the Company's business, operating results and financial condition.

U.S. federal enforcement priorities may have a chilling effect on investment and interest in the cannabis industry.

The changing enforcement priorities of U.S. federal law enforcement authorities and statements regarding enforcement of federal laws prohibiting the possession, use, cultivation, and transfer of cannabis may serve to deter investment in businesses associated with the cannabis industry, regardless of whether such businesses may directly cultivate, manufacture, and/or sell cannabis Products. This may cause the Company to have insufficient access to capital to invest and an inability to identify desirable Operating Companies and other business partners. Without access to affordable capital, the Company will not be able to execute on business development opportunities.

The involvement in the cannabis industry, which is currently illegal under U.S. federal laws, may heighten scrutiny over the Company's securities and issuances thereof by regulatory authorities.

For the reasons set forth above, the Company's association with existing cannabis-related operations (and proceeds thereof) in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate or invest in the United States or any other jurisdiction.

It had been reported in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and

the TSX Venture Exchange. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The 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 is implemented at a time when the Company's SVS are listed on a stock exchange, it would have a material adverse effect on the ability of holders of SVS to make and settle trades. In particular, the SVS would become highly illiquid as until an alternative was implemented, and investors would have no ability to effect a trade of the SVS through the facilities of the applicable stock exchange.

Overall, the cannabis industry is still in flux and, as such, it remains uncertain whether the Company and its Operating Companies can be responsive to both regulatory and market changes.

The medical and adult-use marijuana industry is subject to significant regulatory change at both the state and federal level. As detailed above, the inability of the Company to respond to the changing regulatory landscape may cause it to be unsuccessful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

Risks relating to the securities of the Company

The market value of the SVS could be substantially affected by various factors.

The market value of the SVS may depend on many factors, including:

- the market for similar securities;
- recommendations by securities research analysts;
- the liquidity of the securities;
- general economic conditions;
- addition or departure of the Company's executive officers and other key personnel;
- announcements of developments and other material events by the Company or its competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and
- the Company's financial condition, performance and prospects.

In addition, sales of a substantial number of shares by existing Shareholders in the public market could occur at any time. These sales, or the market perception that the substantial Shareholders of the Company are intending to dispose of their shares, could reduce the market price of the securities of the Company. If this occurs and continues, it could impair the Company's ability to raise additional capital through the sale of securities.

There is no guarantee the Company will secure a return for its investors.

The Company may never be able to secure a return on its capital assets and investors may lose some or all of their investment. While market indicators appear to be positive (based on our internal market research), there is no guarantee that the market for our Products will not change, and the Company may not be able to take advantage of existing or potential market opportunities.

The Company may, in a separate subsequent offering, issue debt or preferred securities with rights that are preferential to, and could cause a decrease in the value of, the Company's SVS.

Under certain circumstances, the Company may issue debt and/or shares of preferred stock without action by its Shareholders. Rights or preferences of the debt or preferred securities could include, among other things:

- the establishment of principal and interest obligations or dividends which must be paid prior to declaring or paying dividends or other distributions to holders of SVS;
- a security interest in some or all of the Company's assets that could be foreclosed upon in the event of default of a loan agreement or similar instrument;
- greater or preferential liquidation rights which could negatively affect the rights of holders of the SVS; and
- the right to convert the debt or preferred securities at a rate or price which would have a dilutive effect on the outstanding SVS.

The Company may need to raise additional capital in the immediate future.

The Company believes its cash resources will be sufficient to fund planned operations and expansion for the immediate future. However, the Company may need additional capital in the future. If the Company raises additional capital through the issuance of debt securities, the interests of Shareholders of the Company would be subordinated to the interests of debt holders and any interest payments would reduce the amount of cash available to operate and grow the business. If the Company raises additional capital through the sale of equity securities, the ownership of the Shareholders would be diluted. Additionally, the Company cannot predict whether any financing, if obtained, will be adequate to meet capital needs and to support future growth.

The Company has no plans to pay dividends.

The Company has no present plans to declare or pay dividends in the foreseeable future. Any profits earned by the Company will likely be reinvested into the Company's operations. Accordingly, investors should view an investment in the Company as a long-term investment. If dividends are paid by the Company, they would be subject to tax and, potentially, withholdings.

There are costs associated with being a public company under applicable securities laws and regulations.

As a public issuer, the Company is subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Company's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Company's legal, accounting and financial compliance costs, make some activities more difficult, time-

consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business and financial condition.

In particular, the Company is subject to reporting and other obligations under applicable Canadian securities laws, including National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, which requires annual management assessment of the effectiveness of the Company's internal controls over financial reporting. Effective internal controls, including financial reporting and disclosure controls and procedures, are necessary for the Company to provide reliable financial reports, to effectively reduce the risk of fraud and to operate successfully as a public company. These reporting and other obligations place significant demands on the Company as well as on the Company's management, administrative, operational and accounting resources.

Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Company's shares.

There are market price volatility risks associated with publicly traded shares.

The market price of the Company's shares may be subject to wide fluctuations in response to a wide variety of factors, including but not limited to variations in the operating results of the Company and Operating Companies, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and Operating Companies, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the shares.

U.S. tax classification may carry negative tax implications for the Company.

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

For this purpose, "expanded affiliated group" means a group of corporations where (i) the non-United States corporation owns stock representing more than 50% of the vote and value of at least one member of the expanded affiliated group, and (ii) stock representing more than 50% of the vote and value of each

member is owned by other members of the group. The definition of an "expanded affiliated group" includes partnerships where one or more members of the expanded affiliated group own more than 50% (by value) of the interests of the partnership.

The Company may be treated as a United States corporation for United States federal income tax purposes under section 7874 of the Internal Revenue Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the Internal Revenue Code, to be treated as a Canadian resident company for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the United States which could have a material adverse effect on its financial condition and results of operations.

It is unlikely that the Company will pay any dividends on the SVS in the foreseeable future. However, dividends received by Shareholders who are residents of Canada for the purposes of the ITA will be subject to U.S. withholding tax. Any such dividends may not qualify for a reduced rate of withholding tax under the Canada-United States tax treaty. In addition, a foreign tax credit or a deduction in respect of foreign taxes may not be available. Dividends received by U.S. Shareholders will not be subject to U.S. withholding tax but will be subject to Canadian withholding tax. Dividends paid by the Company will be characterized as U.S. source income for purposes of the foreign tax credit rules under the Internal Revenue Code. Accordingly, U.S. Shareholders generally will not be able to claim a credit for any Canadian tax withheld unless, depending on the circumstances, they have an excess foreign tax credit limitation due to other foreign source income that is subject to a low or zero rate of foreign tax.

Dividends received by Shareholders that are neither Canadian nor U.S. Shareholders will be subject to U.S. withholding tax and will also be subject to Canadian withholding tax. These dividends may not qualify for a reduced rate of U.S. withholding tax under any income tax treaty otherwise applicable to a Shareholder of the Company, subject to examination of the relevant treaty. Because the SVS will be treated as shares of a U.S. domestic corporation, the U.S. gift, estate and generation-skipping transfer tax rules generally apply to a non-U.S. Shareholder of SVS.

DIVIDENDS

As of the date of this AIF, the Company has not paid any dividends on any of its outstanding shares. The future payment of dividends by the Company will be dependent upon the financial requirements of the Company to fund further growth, the financial condition of the Company and other factors which the Company's Board of Directors may consider in the circumstances. It is not contemplated that any dividends will be paid in the immediate or foreseeable future, if at all.

DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of SVS without par value and 500,000 NPV Shares without par value. As of the date of this AIF, approximately 125,809,526 SVS were issued and outstanding as fully paid and non-assessable and 500,000 NPV Shares were issued and outstanding as fully paid and non-assessable.

There are no pre-emptive rights, no conversion or exchange rights, no redemption, retraction, purchase for cancellation or surrender provisions. There are no sinking or purchase fund provisions, no provisions permitting or restricting the issuance of additional securities or any other material restrictions, and there are no provisions which are capable of requiring a security holder to contribute additional capital.

Each SVS entitles the holder thereof to (i) receive dividends if and when declared by the board, (ii) receive notice of shareholders meetings, (iii) the right to one (1) vote, in person or by proxy, at any such shareholders meeting and (iv) a *pro rata* right to the assets of the corporation on wind-up.

Each NPV Share entitles the holder thereof to notice of shareholders meetings and the right to one hundred (100) votes, in person or by proxy, at any such shareholders meeting on the same terms as the SVS. The NPV Shares do not have any rights to dividends or to the distribution of assets on wind-up.

As of the date of this AIF, the following securities are outstanding:

- (a) approximately 19,112,265 Options to acquire SVS with a weighted average exercise price of \$0.66; and
- (b) approximately 26,423,097 Warrants with a weighted average exercise price of \$1.42.

Coattail Provisions

Under applicable Canadian law, an offer to purchase NPV Shares would not necessarily require that an offer be made to purchase SVS. In accordance with the rules applicable to most senior issuers in Canada, in the event of a take-over bid, the holders of SVS will be entitled to participate on an equal footing with holders of NPV Shares. The holding company holding all the outstanding NPV Shares will enter into a customary coattail agreement with all of its shareholders, the Company and a recognized trustee (the "**Coattail Agreement**"). Shares of the holding company may, at any time, only be held by employees of the Company. The Coattail Agreement contains provisions customary for dual class, listed corporations designed to prevent transactions that otherwise would deprive the holders of SVS of rights under applicable provincial take-over bid legislation to which they would have been entitled if the NPV Shares had been SVS.

The undertakings in the Coattail Agreement do not apply to prevent a sale by any holder of NPV Shares if concurrently an offer is made to purchase SVS that:

- (a) offers a price per SVS at least as high as the highest price per share paid pursuant to the take-over bid for the NPV Shares;
- (b) provides that the percentage of outstanding SVS to be taken up (exclusive of shares owned immediately prior to the offer by the offeror or persons acting jointly or in concert with the offeror) is at least as high as the percentage of NPV Shares to be sold (exclusive of NPV Shares owned immediately prior to the offer by the offeror and persons acting jointly or in concert with the offeror);
- (c) has no condition attached other than the right not to take up and pay for SVS tendered if no shares are purchased pursuant to the offer for NPV Shares; and
- (d) is in all other material respects identical to the offer for NPV Shares.

In addition, the Coattail Agreement does not prevent the transfer of NPV Shares by a holder to a permitted holder. The conversion of NPV Shares into SVS, whether or not such SVS are subsequently sold, would not constitute a disposition of NPV Shares for the purposes of the Coattail Agreement.

Under the Coattail Agreement, any disposition of NPV Shares (including a transfer to a pledgee as security) by a holder of NPV Shares party to the agreement will be conditional upon the transferee or

pledgee becoming a party to the Coattail Agreement, to the extent such transferred NPV Shares are not automatically converted into SVS in accordance with the terms of the NPV Shares.

The Coattail Agreement contains provisions for authorizing action by the trustee to enforce the rights under the Coattail Agreement on behalf of the holders of the SVS. The obligation of the trustee to take such action is conditional on the Company or holders of the SVS, as the case may be, providing such funds and indemnity as the trustee may require. No holder of SVS has the right, other than through the trustee, to institute any action or proceeding or to exercise any other remedy to enforce any rights arising under the Coattail Agreement unless the trustee fails to act on a request authorized by holders of not less than 10% of the outstanding SVS and reasonable funds and indemnity have been provided to the trustee. The Company has agreed to pay the reasonable costs of any action that may be taken in good faith by holders of SVS pursuant to the Coattail Agreement.

The Coattail Agreement provides that it may not be amended, and no provision thereof may be waived, unless, prior to giving effect to such amendment or waiver, the following have been obtained: (a) the consent of any applicable securities regulatory authority in Canada and (b) the approval of at least 66-2/3% of the votes cast by holders of SVS and 66-2/3% of the votes cast by holders of NPV Shares excluding votes attached to SVS, if any, held by the holders of NPV Shares, their affiliates and any persons who have an agreement to purchase NPV Shares on terms which would constitute a sale or disposition for purposes of the Coattail Agreement other than as permitted thereby.

No provision of the Coattail Agreement limits the rights of any holders of SVS under applicable law.

MARKET FOR SECURITIES

Trading Price and Volume

Prior to the Amalgamation, the Company did not carry on substantial operations. On November 29, 2018, the Company's SVS began trading on the CSE under the symbol DIXI.U. On January 29, 2019, the Company's SVS began trading on the Frankfurt Stock Exchange under the trading symbol 0QV.

The table below summarizes the range and volume of trading prices for each of the months stated on the CSE:

Month	Monthly High (\$)	Monthly Low (\$)	Monthly Volume
November 2018	1.18	0.76	656,614
December 2018	0.90	0.31	5,442,050

Prior Sales

The Company did not issue any securities of the Company not listed or quoted on a marketplace during the financial year ended December 31, 2018 since the date of the Amalgamation Effective Date.

ESCROWED SECURITIES

Since the total outstanding equity of the Company is valued at greater than C\$100 million, principals of the Company are not be required to enter into escrow arrangements with respect to their holdings. The Company is classified as an exempt issuer as defined in NP 46-201.

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

The following table lists the names, municipalities of residence of the directors and officers of the Company, their positions and offices with the Company, their principal occupations during the past five (5) years and the number of securities of the Company each beneficially owns, directly or indirectly, or over which control or direction is exercised. The Company's Board of Directors was approved by the holders of Academy Shares at the Meeting. The directors will hold office until the next annual general meeting of the Shareholders.

<u>Name & Municipality of Residence</u>	<u>Present Occupation and Positions Held During the Last Five Years</u>	<u>Position with the Company</u>	<u>Securities of Company Beneficially Held⁽¹⁾⁽²⁾</u>	<u>Percentage Beneficially Held</u>
Charles Smith ⁽³⁾ Denver, Colorado	Director, President and Chief Executive Officer, USA Inc. President, Bella Terra Realty Holdings President, Sagebrush Realty Development	Director, Chief Executive Officer	10,189,736 SVS 300,000 NPV Shares	8.11% 60%
Brian Graham ⁽⁴⁾ Atlanta, Georgia	Director, USA Inc. Founder, Rise Investments International President of Asheville Distilling Company Co-Manager, Hawaii Sea Spirits Board Member, Georgia Chamber Board Member and Treasurer, Professional Beauty Association President, Manufacture's Leadership Council	Director	2,408,353 SVS ⁽⁶⁾	1.92%
Melvin Yellin ⁽⁴⁾ New York, New York	Director, USA Inc. Founder, Acreage Holdings Partner, Tandem Global Partners Partner, Executive Vice president and General Counsel, Bankers Trust Company Director, Symbol Technologies, Inc.	Director	1,064,035 SVS	0.85%

	President, National Association of Corporate Directors (New York Chapter)			
	Member, New York Clearing House GC Committee			
Devin Binford ⁽³⁾	Director, USA Inc.	Director	347,655 SVS	0.28%
New York, New York	Managing Member, Acreage Holdings			
	Director, Tandem Global Partners (Investment Banking Division)			
	Manager, The Blackstone Group (Corporate Finance Group)			
Vincent "Tripp" Keber, III	Consultant, USA Inc.	Director	4,526,257 SVS	3.60%
Denver, Colorado	Founder, Dixie Elixirs and Edibles			
	Board Member, National Cannabis Industry Association			
	Board Member, Marijuana Policy Project			
	Advisory Board Member, Medical Marijuana Industry Group			
	Chief Operating Officer, Bella Terra Resort Development Company			
	Executive Vice President, Sagebrush Realty Development (Business Development)			
Michael Lickver ⁽³⁾⁽⁴⁾	Chief Strategy Officer, Auxly Cannabis Group Inc.	Director	42,140 SVS	0.03%
Toronto, Ontario	Lawyer, Bennett Jones LLP			
	Canadian Editor, International Cannabis Law Journal			
	Adjunct Professor, Western Law			
	Director, UJA Federation of Greater Toronto (Arts and Culture Committee)			

Hugo Alves Toronto, Ontario	President, Auxly Cannabis Group Inc. Partner, Bennett Jones LLP Director, Canadians for Fair Access to Medical Marijuana	Director	42,140 SVS	0.03%
CJ Chapman Denver, Colorado	General Counsel and Secretary, USA Inc. Partner, Brownstein Hyatt Farber & Schreck, LLP	General Counsel and Secretary	263,375 SVS 200,000 NPV Shares	0.21% 40%
James Feehan Denver, Colorado	Interim Chief Financial Officer, USA Inc.	Interim Chief Financial Officer	nil	nil

Notes:

- 1) Securities beneficially owned, directly or indirectly, or over which control or direction is exercised, as at the date of this AIF, based upon information furnished to the Company by the above individuals.
- 2) All officers and directors of the Company hold an aggregate of 18,883,691 of the SVS (approximately 15.03%).
- 3) Members of the Audit Committee. A member of an audit committee is independent if the member has no direct or indirect material relationship with the Company, which could, in the view of the Board, reasonably interfere with the exercise of a member's independent judgment. An individual is financially literate if he has the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements. Other than Charles Smith, each member of the Audit Committee is independent within the meaning of National Instrument 52-110 Audit Committees. Each member of the Audit Committee is financially literate within the meaning of National Instrument 52-110 Audit Committees.
- 4) Members of the Executive Compensation Committee.
- 5) In addition to the Audit Committee and the Executive Compensation Committee, the Company intends to create additional board committees in order to enhance corporate governance.
- 6) Brian Graham holds his SVS indirectly through Rise Investments International II Series Y, LLC, and Rise Investments International II Series 7.

Management

Brief descriptions of the biographies for all the officers and directors of the Company are set out below:

Charles Smith (Director, President and Chief Executive Officer).

Charles "Chuck" Smith is the President and Chief Executive Officer of the Company, as well as Therabis, and Aceso Wellness, two of the leading hemp supplement brands. As one of two original founders of the Company, Chuck helped the company grow from a "garage operation" to a 27,000 square foot state-of-the-art, vertically integrated manufacturing facility that was the first-of-its-kind for the marijuana industry.

Prior to building the Company and the Dixie brand, Chuck was President of Bella Terra Realty Holdings where he oversaw all aspects of the Bella Terra Resort Development Company. He was also President of Sagebrush Realty Development and responsible for developing, selling and managing residential condominium projects valued at over \$85 million in revenues.

Chuck has over twenty-five (25) years of experience in a variety of industries. He has a strong financial background, holding the position of Chief Financial Officer for a mid-sized retail

apparel chain and has built and managed sales and marketing teams for private and publicly traded technology companies.

Chuck has a Bachelor's degree in Accounting from the University of Maryland and an MBA from the Owen Graduate School at Vanderbilt University. Mr. Smith is married and lives in Denver, Colorado. He actively participates in a wide variety of philanthropic organizations and is an avid golfer.

Brian Graham (Director).

Brian Graham served as Chief Executive Officer and Board Member of NIOXIN Research Laboratories, Inc., a global leader in the manufacturing of hair care products. During his tenure from 2003 to 2010, Graham transitioned the company from a privately held regional consumer products business to a dominant global company recently acquired by Procter & Gamble. Under Brian's leadership, the company's revenues doubled and its EBITDA increased from US\$1M to US\$17M. Brian led the company through a rapid profitable growth phase expanding both the company's product portfolio as well as its geographical reach.

After NIOXIN's acquisition by Procter and Gamble, Brian became a member of the P&G Salon Professional Lead Team. He continued to lead the business and the integration efforts as NIOXIN's CEO, exceeding acquisition economics by over \$20 million and led several key initiatives for the business. As result, Graham received the Platinum Power of You Award from the Division President.

In 2010, Graham began investing in a variety of business across many industries. These include, big data, technology, real estate, business services, a multi-family office (Pathstone) and Fleetwood's on Front Street (Maui) with Mick Fleetwood. In addition, Graham founded Blue Ridge Spirits and served as President of Asheville Distilling Company.

In 2014, Graham founded Rise Investments International, a company focused on providing growth equity, debt financing and management resources for closely held businesses ranging from start-ups to mid-cap enterprises. Recent transactions include Hawaii Sea Spirits, PlaySight, Dixie Brands Inc., Tennis Media Company, and Gozio Inc.

In 1992, Graham received his Bachelor of Science degree from Georgia Southern University. He has also attended Executive Programs at the University of Michigan and in 2002 completed the Program for Management Development at Harvard University.

Graham is a high-energy entrepreneur who loves adventure professionally and personally. He enjoys investing and advising high growth companies and is a highly-engaged leader who enjoys creating talented collaborative teams.

He is a member of Young Presidents Organization, the Harvard Business Club, the Alpha Tau Omega fraternity and serves on numerous for-profit and non-profit boards. Currently, he serves as Co-Manager of Hawaii Sea Spirits and as a Board Member of the Company. Previous appointments include the Georgia Chamber, board member and Treasurer of the Professional Beauty Association, Past President of the Manufacture's Leadership Council. Graham enjoys supporting various philanthropic efforts including serving on the Board of Trustees for Maui Preparatory Academy and the Graham Family Foundation.

Brian resides in Atlanta, Georgia and Maui, Hawaii. He has three children Amanda, Amelia and Angelina. In his leisure time he enjoys to travel, snow skiing, diving and exercise.

Melvin Yellin (Director).

Mr. Yellin is a Founder of Acreage Holdings, a vertically integrated cannabis company licensed in 12 states. He is also currently a director of the Company, having previously been a partner at Tandem Global Partners, which was a globally focused money manager that offered investment services to sophisticated institutions and individuals, focusing primarily on alternative investment strategies.

Prior to joining Tandem, Mr. Yellin spent the bulk of his career at Bankers Trust Company and was a Partner, Executive Vice President and General Counsel when it merged with Deutsche Bank. He had global responsibility for over 350 professionals and served on the Bank's Risk Committee, New Business Committee and its Investment Banking Management Committee, which included the significant Venture Capital business.

Mr. Yellin was a member of the Symbol Technologies, Inc. (NYSE) Board of Directors (Audit, Compensation and Governance Committees) as well as a director of numerous privately held companies and not-for-profits. Symbol was the world's premier developer of bar code and RFID software and hardware. Symbol was later successfully sold to Motorola.

During his career, Mr. Yellin has acted as chairman, speaker and author for numerous business organization programs including those run by the Conference Board, the NACD, Columbia Business School (ODX) and the Wisconsin School of Business. Mr. Yellin served as the President of the New York Chapter of the National Association of Corporate Directors and a member of the New York Clearing House GC Committee.

He was selected for "Who's Who in American Law," The International "Who's Who of Contemporary Achievement" and the "International Directory of Distinguished Leadership".

Devin Binford (Director).

Mr. Binford is a Managing Member of Acreage Holdings. Mr. Binford is a seasoned finance executive with extensive financing and transaction experience. He has been involved with the legal cannabis industry since 2011, focusing primarily on sourcing, evaluating and investing in licensed dispensaries, cultivation centers, processing facilities, edibles manufacturers, alternative dosage forms companies and real estate.

Prior to his role at Acreage Holdings, Mr. Binford worked as a Director in the Investment Banking Division at Tandem Global Partners where he was responsible for analyzing principal and debt investments as well as portfolio management. Before attending Columbia, Mr. Binford was a Manager in the Corporate Finance Group at The Blackstone Group.

Presently, Mr. Binford serves on the Board of Directors of the Company.

Mr. Binford graduated from Columbia University with an MSc in Real Estate Development and concentration in Real Estate Finance; he earned a B.B.A. in Finance and Computer Information Systems from James Madison University.

Vincent "Tripp" Keber, III (Director).

As one of two original founders of the Dixie Elixirs and Edibles company, Colorado's premiere licensed marijuana infused Products manufacturer (MIPS), Tripp Keber is widely hailed as one of the cannabis industry's indispensable leaders. He presently serves as a consultant to the Company. He is also a founding member and current board director of the National Cannabis Industry Association. Additionally, since 2013, he has served as a Board Member of the Marijuana Policy Project as well as an Advisory Board member of the Medical Marijuana Industry Group in Colorado.

Prior to building the Company into a leader in the cannabis industry, Tripp served as Chief Operating Officer for Bella Terra Resort Development Company, and EVP of Business Development for Sagebrush Realty Development.

He has a B.S. in Political Science from Villanova University and currently resides in both Aspen and Denver with his family. While he is involved in several charitable organizations located within his community, his greatest philanthropic passion is assisting in the research and development of cannabis support for veterans suffering from PTSD.

Mike Lickver (Director).

Mike Lickver is the Chief Strategy Officer of Auxly Cannabis Group Inc. (TSX-V: XLY), a vertically integrated Canadian cannabis company. Prior to joining Auxly, Mike was a corporate and commercial lawyer at a large international Bay Street law firm where he co-founded the cannabis practice in 2013 and helped grow it into a global leader. As one of Canada's leading advisors in the cannabis industry, he has represented a variety of global industry participants and has played a key role in a wide variety of domestic and international corporate and commercial transactions since the inception of the cannabis industry in Canada. Mike speaks frequently at conferences across the globe on topics related to the cannabis industry and, a frequent author to the industry, is also the Canadian Editor of the International Cannabis Law Journal. Mike is also an adjunct professor at Western Law where he teaches "Cannabis Law and Practice", a course he designed and developed, the first of its kind in Canada. Mike also sits on the board of directors of the Arts and Culture Committee for the UJA Federation of Greater Toronto and has previously acted as a director for various not-for-profits and privately held cannabis companies.

Mike earned Law (J.D.) and MBA degrees from the University of Western Ontario and the Richard Ivey School of Business.

Hugo Alves (Director).

Hugo Alves is the President of Auxly Cannabis Group Inc. (TSX-V: XLY) and widely regarded as one of Canada's leading advisors in the cannabis industry, having represented a variety of global industry participants, including licensed producers, licensed producer applicants, licensed dealers, industry associations, e-commerce platforms, seed-to-sale software developers, design and build firms, patient aggregators, equipment manufacturers and distributors, and cannabis branding companies. Prior to joining Auxly, Hugo was a senior corporate and commercial Partner at Bennett Jones LLP where he founded and built the firm's Cannabis Group and acted as lead counsel in multiple foundational transactions since the creation of the corporate cannabis industry. Widely regarded as a Canadian cannabis industry pioneer, Hugo also sits on the board of directors of the not-for-profit Canadians for Fair Access to Medical Marijuana (CFAMM) and

has previously acted as a director for various not-for-profits and privately held cannabis companies.

Hugo obtained his B.A. from Carleton University and his J.D. from the University of Toronto.

James Feehan (Interim CFO).

James Feehan is Dixie Brands' interim Chief Financial Officer. Mr. Feehan brings more than 30 years of experience in accounting, finance and taxation to the company. His experience includes financial reporting, budgeting, banking and investor relations, tax compliance review and staff supervision.

Mr. Feehan began his career within the audit group at Coopers & Lybrand, an International CPA firm, in 1981. During his eight-year tenure, Mr. Feehan worked with both publicly and privately held entities in the areas of taxation and attestation, rising to a supervisory position in the audit and tax departments. Subsequent to his tenure at Coopers & Lybrand, he has held the position of CFO and controller for a number of privately held entities and also provided financial consultation for numerous individuals and start-up entities. In 2002 he founded CFO Advisory Group, a consulting firm providing CFO/controller services to small and medium sized companies.

Mr. Feehan has a B.Sc. in business administration from the University of Nebraska at Kearney, and a Master of Taxation from the University of Denver. He is also a Certified Public Accountant (inactive) and is a board director of a local community bank and is currently its audit chairman.

CJ Chapman (General Counsel).

C. J. Chapman joined Dixie as its General Counsel on June 18, 2018. C. J. received his A.B. in politics from Princeton University and his J.D. from the University of Denver Sturm College of Law. Prior to joining Dixie, he directed a single family office based in New York with respect to structure, operations and legal issues. C. J. spent his entire private practice at Brownstein Hyatt Farber & Schreck, LLP in the real estate and corporate departments. He practiced at Brownstein from 2006 through 2017 and was a partner from 2013 through 2017.

His practice focused on the acquisition, disposition, financing, leasing and development of various commercial real estate assets, including apartment and office buildings, sports complexes, hotels, shopping centers, and vacant land. In addition, C.J. advised various companies on corporate matters, including partnership agreements, formation of entities and general corporate governance. C.J. served as outside general counsel to one of the nation's largest cattle feed manufacturers advising them on all corporate matters, including partnership agreements and corporate finance, and he also served as outside general counsel to the Oakland Alameda County Coliseum Authority, the entity that owns and operates the Oakland Coliseum and Oracle Arena.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director of the Company:

- (a) is, at the date of this AIF, or has been, within ten (10) years before the date of this AIF, a director, chief executive officer or chief financial officer of any company, including any personal holding company of such director, chief executive officer or chief financial officer that:

- (i) while that Person was acting in that capacity, was the subject of a cease trade or similar order, or an order that denied the other relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
 - (ii) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days issued after the that Person ceased to be a director or executive officer and which resulted from an event that occurred while the Person was acting in such capacity;
- (b) is, at the date of this AIF, or has been, within 10 years before the date of this AIF, a director or executive officer of any company (including any personal holding company of such director or executive officer) that, while that Person was acting in that capacity, or within a year of that Person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than Charles Smith who acted as an independent director of CannaSecurity America ("**CannaSecurity**"), a U.S. issuer that filed for bankruptcy protection under Chapter 7 of the Title 11 of the United States Code on April 30, 2018. Mr. Smith stepped in as a Director at a time when CannaSecurity was financially struggling. He worked with management in an attempt to restructure the company but market conditions did not allow the company to recover; or
- (c) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such Person or their personal holding company.

No director of the Company has been subject to: (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

Conflicts of Interest

Conflicts of interest may arise as a result of the directors or officers of the Company also holding positions as directors or officers of other companies. Some of the directors and officers of the Company have been and will continue to be engaged in the identification and evaluation of assets, businesses and companies on their own behalf and on behalf of other companies, and situations may arise where the directors and officers of the Company will be in direct competition with the Company. Conflicts, if any, will be subject to the procedures and remedies provided under OBCA.

AUDIT COMMITTEE INFORMATION

The Audit Committee is governed by an Audit Committee Charter, a copy of which is attached hereto as Schedule "A".

Composition of the Audit Committee

As of the date of this AIF, the following were the members of the Audit Committee:

<u>Name</u>	<u>Independence</u>	<u>Financial Literacy</u>
Charles Smith	No	Yes
Devin Binford	Yes	Yes
Michael Lickver	Yes	Yes

Relevant Education and Experience

The Board believes that the composition of the Audit Committee reflects financial literacy and expertise. Currently, all members of the Audit Committee have been determined by the Board to be "financially literate" and two of the three members are "independent" as such terms are defined under National Instrument 52-110 – *Audit Committees*. The Board has made these determinations based on the education as well as breadth and depth of experience of each member of the Audit Committee.

All the members of the Audit Committee have the education and/or practical experience required to understand and evaluate financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements. The following is a brief summary of the education and experience of each member of the Committee that is relevant to the performance of his responsibilities as an Audit Committee member:

Charles Smith

Charles Smith has over twenty-five (25) years of business experience in a variety of industries. He has a strong financial background, having a Bachelor's degree in Accounting from the University of Maryland and an MBA from the Owen Graduate School at Vanderbilt University. He is also the Chief Financial Officer for a mid-sized retail apparel chain.

Devin Binford

Devin Binford is a seasoned finance executive with extensive financing and transaction experience. He has been involved with the legal cannabis industry since 2011, focusing primarily on sourcing, evaluating and investing in licensed dispensaries, cultivation centers, processing facilities, edibles manufacturers, alternative dosage forms companies and real estate. He has broad capital markets experience, currently as a Managing Member of Acreage Holdings, and formerly as a Director in the Investment Banking Division at Tandem Global Partners and as a Manager in the Corporate Finance Group at The Blackstone Group.

Michael Lickver

Mike Lickver is the Chief Strategy Officer of Auxly Cannabis Group Inc. (TSX-V: XLY), a vertically integrated Canadian cannabis company. Prior to joining Auxly, he was a corporate and commercial lawyer at a large international Bay Street law firm. Mike earned Law (J.D.) and MBA degrees from the University of Western Ontario and the Richard Ivey School of Business.

Through his education, experience as a corporate lawyer and work with Auxly Cannabis Group Inc., Mike has become familiar with public company financial statements and the accounting principles used in reading and preparing financial statements.

External Auditor Service Fees (By Category)

The following table summarizes the fees paid to the external auditors of the Company, in each of the last two fiscal years:

<u>Fiscal Year</u>	<u>Audit Fees</u>	<u>Audit-Related Fees</u>	<u>Tax Fees</u>	<u>All other Fees</u>
2018	\$4,000	Nil	Nil	Nil
2017	\$5,763	Nil	Nil	Nil

Notes:

- 1) "Audit Fees" include fees necessary to perform the annual audit of the Company's consolidated financial statements.
- 2) "Audit-Related Fees" include other services that are performed by the auditor such as consultations or internal control reviews.
- 3) "Tax Fees" include fees for tax compliance, tax planning and tax advice. These services include preparing tax returns and corresponding with government tax authorities.
- 4) "All Other Fees" include all other non-audit services.

PROMOTERS

Charles Smith and Vincent Keber, III may be considered promoters of the Company by virtue of their status as co-founders of the Company. Other than disclosed herein, there is nothing of value, including money, property, contracts, options or rights of any kind received or to be received by either of them directly or indirectly from the Company or from a subsidiary of the Company, nor any assets, services or other consideration received or to be received by the Company or a subsidiary of the Company in return. Other than as disclosed herein, no asset has been acquired, within the two years before the date of this AIF, or is to be acquired by the Company or any subsidiary of the Company, from either such individual.

Neither Mr. Smith nor Mr. Keber is, as at the date of this AIF, and was not within 10 years before the date of this AIF, a director, chief executive officer, or chief financial officer of any person or issuer that: (i) was subject to any cease trade order, order similar to a cease trade order or an order that denied the relevant person or issuer access to any exemption under securities legislation, and was in effect for a period of more than 30 consecutive days, that was issued while he was acting in the capacity as director, chief executive officer or chief financial officer; or (ii) was subject to any cease trade order, order similar to a cease trade order or an order that denied the relevant person or issuer access to any exemption under securities legislation, and was in effect for a period of more than 30 consecutive days, that was issued after he ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while he was acting in the capacity as director, chief executive officer or chief financial officer.

Other than as disclosed herein, neither Mr. Smith nor Mr. Keber is, as at the date of this AIF, and nor has he been within the 10 years before the date of this AIF, a director or executive officer of any person or company that, while he was acting in that capacity, or within a year of him ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. In addition, other than as disclosed herein, neither Mr. Smith nor Mr. Keber has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any

proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets.

Neither Mr. Smith nor Mr. Keber has been subject to any penalties or sanctions imposed by a court relating to provincial and territorial securities legislation or by a provincial and territorial securities regulatory authority, and neither such individual has entered into a settlement agreement with a provincial and territorial securities regulatory authority. In addition, neither Mr. Smith nor Mr. Keber is subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor in making an investment decision.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of management, there is one outstanding legal proceeding to which the Company is the respondent. A proceeding was brought against the Company by Tom Pister under the *Solicitors Act* on February 23, 2011. This matter is presently active with the Ontario Superior Court of Justice.

The Company has not been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority since the Amalgamation Effective Date.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of management of the Company, there are no material interests, direct or indirect, by way of beneficial ownership of securities or otherwise, of any informed persons of the Company, directors, proposed directors or officers of the Company, any shareholder who beneficially owns more than ten percent (10%) of the SVS or NPV Shares of the Company, or any associate or affiliate of these persons in any transaction since the commencement of the Company's last completed financial year or in any proposed transaction, which has materially affected or would materially affect the Company other than as disclosed herein or in the financial statements of the Company for the financial year ended December 31, 2018, which can be found on the Company's profile on SEDAR at www.sedar.com. Reference should be made to the notes to the audited financial statements for a more detailed description of any material transaction.

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar of the Company is National Issuer Services Inc., at its Vancouver office located at 760 – 777 Hornby Street, Vancouver, B.C. V6Z 1S4.

MATERIAL CONTRACTS

During the course of the two years prior to the date of the AIF, the Company has entered into the following material contracts, other than contracts entered into in the ordinary course of business:

- (a) the Amalgamation Agreement (see General Development of the Business);
- (b) the joint venture and ancillary agreements between the Company, DBPN and SSW (Nevada) (See Description of the Business);
- (c) the manufacturer's license agreement between the Company, Indus, Edible and Cypress (California) (See Description of the Business);

- (d) the manufacturer's license agreement between the Company and Curio (Maryland) (See Description of the Business);
- (e) the licensing agreement between the Company and Auxly (Canada) (See Description of the Business); and
- (f) the manufacturer's license agreement between Therabis and AustraliaCo (Australia) (See Description of the Business).

INTERESTS OF EXPERTS

No Person whose profession or business gives authority to a statement made by the Person and who is named as having prepared or certified a part of this AIF or as having prepared or certified a report or valuation described or included in this AIF holds any beneficial interest, direct or indirect, in any securities or property of the Company or of an Associate or Affiliate of the Company and no such Person is expected to be elected, appointed or employed as a director, senior officer or employee of the Company or of an Associate or Affiliate of the Company and no such Person is a promoter of the Company or an Associate or Affiliate of the Company. MNP LLP is independent of the Company in accordance with the rules of professional conduct of the Institute of Chartered Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information concerning the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's equity compensation plans, is contained in the Company's Listing Statement dated November 23, 2018, available on SEDAR at www.sedar.com.

Additional financial information concerning the Company, including the Company's audited financial statements, the notes thereto, the auditor's report thereon and related management's discussion and analysis for the year ended December 31, 2018, can be found on the Company's profile on SEDAR at www.sedar.com.

Additional information relating to the Company may be found on the Company's profile on SEDAR at www.sedar.com.

SCHEDULE "A" AUDIT COMMITTEE CHARTER

DIXIE BRANDS INC.

GENERAL

**ARTICLE 1
PURPOSE AND RESPONSIBILITIES OF THE COMMITTEE**

1.1 Purpose

The primary purpose of the Committee is to assist Board oversight of:

- (a) the integrity of the Corporation's financial statements;
- (b) the Corporation's compliance with legal and regulatory requirements;
- (c) the External Auditor's qualifications and independence; and
- (d) the performance of the Corporation's internal audit function and the External Auditor.

**ARTICLE 2
DEFINITIONS AND INTERPRETATION**

2.1 Definitions

In this Charter:

- (a) "**Board**" means the board of directors of the Corporation;
- (b) "**Chair**" means the chair of the Committee;
- (c) "**Committee**" means the audit committee of the Board;
- (d) "**Corporation**" means Dixie Brands Inc.
- (e) "**Director**" means a member of the Board; and
- (f) "**External Auditor**" means the Corporation's independent auditor.

2.2 Interpretations

The provisions of this Charter are subject to the provisions of the articles and bylaws of the Corporation and to the applicable provisions of the *Business Corporations Act* (Ontario), and any other applicable legislation.

**ARTICLE 3
CONSTITUTION AND FUNCTIONING OF THE COMMITTEE**

3.1 Establishment and Composition of the Committee

- (a) Establishment of the Audit Committee

The Committee is hereby continued with the constitution, function and responsibilities herein set forth.

3.2 Appointment and Removal of Members of the Committee

- (a) *Board Appoints Members.* The members of the Committee shall be appointed by the Board, having considered the recommendation of the Nominating and Corporate Governance Committee of the Board.
- (b) *Annual Appointments.* The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.
- (c) *Vacancies.* The Board may appoint a member to fill a vacancy which occurs in the Committee between annual elections of Directors. If a vacancy exists on the Committee, the remaining members shall exercise all of their powers so long as a quorum remains in office.
- (d) *Removal of Member.* Any member of the Committee may be removed from the Committee by a resolution of the Board.

3.3 Number of Members

The Committee shall consist of three or more Directors.

3.4 Independence of Members

A majority of the members of the Committee shall be independent for the purposes of all applicable regulatory and stock exchange requirements.

3.5 Financial Literacy

- (a) *Financial Literacy Requirement.* At least one member of the Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee.
- (b) *Definition of Financial Literacy.* "Financially literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

3.6 Qualifications

The Board will appoint to the Committee at least one Director who has accounting or financial management expertise.

**ARTICLE 4
COMMITTEE CHAIR**

4.1 Board to Appoint Chair

The Board shall appoint the Chair from the members of the Committee who are unrelated directors (or, if it fails to do so, the members of the Committee shall appoint the Chair of the Committee from among its members).

4.2 Chair to be Appointed Annually

The designation of the Committee's Chair shall take place annually at the first meeting of the Board after a meeting of the members at which Directors are elected, provided that if the designation of Chair is not so made, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

**ARTICLE 5
COMMITTEE MEETINGS**

5.1 Quorum

A quorum of the Committee shall be two members.

5.2 Secretary

The Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.

5.3 Time and Place of Meetings

The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee; provided, however, the Committee shall meet at least quarterly.

5.4 In Camera Meetings

As part of each meeting of the Committee at which the Committee recommends that the Board approve the annual audited financial statements or at which the Committee approves the quarterly financial statements, the Committee shall meet separately with each of:

- (a) management; and
- (b) the External Auditor.

5.5 Right to Vote

Each member of the Committee shall have the right to vote on matters that come before the Committee.

5.6 Voting

Any matters to be determined by the Committee shall be decided by a majority of votes cast at a meeting of the Committee called for such purpose. Actions of the Committee may be taken by an instrument or

instruments in writing signed by all of the members of the Committee, and such actions shall be effective as though they had been decided by a majority of votes cast at a meeting of the Committee called for such purpose.

5.7 Invitees

The Committee may invite Directors, officers, consultants and employees of the Corporation or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee. The External Auditor shall receive notice of each meeting of the Committee and shall be entitled to attend any such meeting at the Corporation's expense.

**ARTICLE 6
AUTHORITY OF COMMITTEE**

6.1 Retaining and Compensating Advisors

The Committee shall have the sole authority to engage independent counsel and any other advisors as the Committee may deem appropriate in its sole discretion and to set the compensation for any advisors employed by the audit committee. The Committee shall not be required to obtain the approval of the Board in order to retain or compensate such consultants or advisors.

6.2 Funding

The Committee shall have the authority to authorize the payment of:

- (a) compensation to any external auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation (National Instrument 52-110 – *Audit Committees* requires disclosure of fees by category paid to the External Auditor);
- (b) compensation for any advisors employed by the Committee under Section 6.1 hereof; and
- (c) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

6.3 Recommendations to the Board

The Committee shall have the authority to make recommendations to the Board, but shall have no decision-making authority other than as specifically contemplated in this Charter.

6.4 Compensation

The Committee has the authority to communicate directly with External Auditors and the Internal Auditors.

**ARTICLE 7
REMUNERATION OF COMMITTEE MEMBERS**

7.1 Remuneration of Committee Members

Members of the Committee and the Chair shall receive such remuneration for their service on the Committee as the Board may determine from time to time.

7.2 Directors' Fees

No member of the Committee may earn fees from the Corporation or any of its subsidiaries other than directors' fees (which fees may include cash and/or shares or options or other in-kind consideration ordinarily available to directors, as well as all of the regular benefits that other directors receive). For greater certainty, no member of the Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation.

ARTICLE 8 SPECIFIC DUTIES AND RESPONSIBILITIES

INTEGRITY OF FINANCIAL STATEMENTS

8.1 Review and Approval of Financial Information

- (a) *Annual Financial Statements.* The Committee shall review and discuss with management and the External Auditor the Corporation's audited annual financial statements and related management's discussion and analysis ("MD&A") together with the report of the External Auditor thereon and, if appropriate, recommend to the Board that it approve the audited annual financial statements.
- (b) *Interim Financial Statements.* The Committee shall review and discuss with management and, if appropriate, approve the Corporation's interim unaudited financial statements and related MD&A.
- (c) *Procedures for Review.* The Committee shall be satisfied that adequate procedures are in place for the review of the Corporation's disclosure of financial information *extracted* or derived from the Corporation's financial statements (other than financial statements, MD&A and profit or loss or earnings press releases, which are dealt with elsewhere in this Charter) and shall periodically assess the adequacy of those procedures.
- (d) *General.* The Committee shall review and discuss with management and the External Auditor:
 - (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles;
 - (ii) major issues as to the adequacy of the Corporation's internal controls over financial reporting and any special audit steps adopted in light of material control deficiencies;
 - (iii) analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative accounting methods on the financial statements;
 - (iv) the effect on the financial statements of the Corporation of regulatory and accounting initiatives, structures, obligations (including contingent obligations) and other relationships of the Corporation with unconsolidated entities or other persons that have a material current or future effect on the financial condition,

changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses of the Corporation;

- (v) the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented;
- (vi) any financial information or financial statements in prospectuses and other offering documents;
- (vii) any other relevant reports or financial information submitted by the Corporation to any governmental body or the public; and
- (viii) pension plan financial statements, if any.

ARTICLE 9 EXTERNAL AUDITOR

9.1 External Auditor

- (a) *Authority with Respect to External Auditor.* As a representative of the Corporation's shareholders, the Committee shall be directly responsible for the appointment, compensation and oversight of the work of the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. In the discharge of this responsibility, the Committee shall:
 - (i) have sole responsibility for recommending to the Board the person to be proposed to the Corporation's shareholders for appointment as External Auditor for the above-described purposes and recommending such External Auditor's compensation;
 - (ii) determine at any time whether the Board should recommend to the Corporation's shareholders that the incumbent External Auditor be removed from office;
 - (iii) review the terms of the External Auditor's engagement, discuss the audit fees with the External Auditor and be responsible for approving such audit fees; and
 - (iv) if desired, require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to the Board and the Committee as representatives of shareholders.
- (b) *Independence.* The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process the Committee shall:
 - (i) unless the Committee adopts pre-approval policies and procedures, it must approve any non-audit services provided by the External Auditor, provided that the Committee may delegate such approval authority to one or more of its independent members who shall report promptly to the Committee concerning their exercise of such delegated authority; and

- (ii) review and approve the policy setting out the restrictions on the Corporation hiring partners, employees and former partners and employees of the Corporation's current or former External Auditor.
- (c) Non-Audit Services.
- (i) The Committee shall either:
 - (A) approve any non-audit services provided by the External Auditor or the external auditor of any subsidiary of the Corporation to the Corporation (including its subsidiaries); or
 - (B) adopt specific policies and procedures for the engagement of non-audit services, provided that such pre-approval policies and procedures are detailed as to the particular service, the Committee is informed of each non-audit service and the procedures do not include delegation of the Committee's responsibilities to management.
 - (ii) The Committee may delegate to one or more independent members of the Committee the authority to pre-approve non-audit services in satisfaction of the requirement in the previous section, provided that such member or members must present any non-audit services so approved to the full Committee at its first scheduled meeting following such pre-approval.
 - (iii) The Committee shall instruct management to promptly bring to its attention any services performed by the External Auditor which were not recognized by the Corporation at the time of the engagement as being non-audit services.
- (d) *Evaluation of External Auditor.* The Committee shall evaluate the External Auditor each year and present its conclusions to the Board. In connection with this evaluation, the Committee shall:
- (i) obtain and review a report by the External Auditor describing:
 - (A) the External Auditor's internal quality-control procedures;
 - (B) any material issues raised by the most recent internal quality-control review, or peer review, of the External Auditor's firm or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the External Auditor's firm, and any steps taken to deal with any such issues; and
 - (C) all relationships between the External Auditor and the Corporation (for the purposes of assessing the External Auditor's independence);
 - (ii) review and evaluate the performance of the lead partner of the External Auditor; and
 - (iii) obtain the opinions of management and of the persons responsible for the Corporation's internal audit function with respect to the performance of the External Auditor.

- (e) Review of Management's Evaluation and Response. The Committee shall:
 - (i) review management's evaluation of the External Auditor's audit performance;
 - (ii) review the External Auditor's recommendations, and review management's response to and subsequent follow-up on any identified weaknesses; and
 - (iii) recommend to the Board whether any new material strategies presented by management should be considered appropriate and approved.

**ARTICLE 10
INTERNAL CONTROL AND AUDIT FUNCTION**

10.1 Internal Control and Audit

In connection with the Corporation's internal audit function, the Committee shall:

- (a) review the terms of reference of the internal auditor and meet with the internal auditor as the Committee may consider appropriate to discuss any concerns or issues; and
- (b) periodically review with the internal auditor any significant difficulties, disagreements with management or scope restrictions encountered in the course of the work of the internal auditor.

**ARTICLE 11
OTHER**

11.1 Expense Accounts

The Committee shall review and make recommendations with respect to:

- (a) the expense account summaries submitted by the Chief Executive Officer on an annual basis;
- (b) the Corporation's expense account policy, and rules relating to the standardization of the reporting on expense accounts; and
- (c) the Director Expense Policy of the Corporation, as applicable.

11.2 Whistle Blowing

The Committee shall put in place procedures for:

- (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
- (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

ARTICLE 12
ANNUAL PERFORMANCE EVALUATION

On an annual basis, the Committee shall follow the process established by the Board and overseen by the Nominating and Corporate Governance Committee for assessing the performance and effectiveness of the Committee.

ARTICLE 13
CHARTER REVIEW

The Committee shall review and assess the adequacy of this Charter annually and recommend to the Board any changes it deems appropriate.