NOTE TO READER

The management's discussion and analysis ("MD&A") for the interim period ended June 30, 2023 was filed on August 28, 2023 for Cansortium Inc. (the "Issuer"). Management has identified errors related to the accounting for the biological asset and inventory valuation and overstatement of depreciation expense for the quarter ended June 30, 2023. We are filing the corrected MD&A. See further discussion of the restatement in Note 2 in "Condensed Interim Notes to the Consolidated Financial Statements (unaudited)."

CANSORTIUM INC.

SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") provides information concerning the financial condition and results of operations of Cansortium Inc. (the "Company"). This MD&A is provided as of April 29, 2024, unless otherwise stated, and should be read along with the Company's Condensed Interim Consolidated Financial Statements ("Condensed Interim Unaudited Consolidated Financial Statements") and the accompanying notes for the three and six months ended June 30, 2023 and 2022. These financial statements are unaudited.

Restatement

Our financial statements as of and for the three and six months ended June 30, 2023 have been restated to correct identified errors related to the accounting for the biological asset and inventory valuation and overstatement of depreciation expense for the quarter ended June 30, 2023. See further discussion of the restatement in Note 1 in "Condensed Interim Notes to the Consolidated Financial Statements (unaudited)" contained herein. The MD&A which follows below has been corrected to reflect the impact of the restatement.

A summary of the impact of the error on the unaudited condensed consolidated statement of loss and other comprehensive loss for the three and six months ended June 30, 2023 is as follows:

	Three Months Ended June 30, 2023		
	As Reported	**Adjustment**	**As Restated**
Cost of goods sold	8,644	2,804	11,448
Gross profit before fair value adjustment	15,786	(2,804)	12,982
Fair value adjustments on inventory sold	441	1,770	2,211
Gross profit	13,192	(1,034)	12,158
Depreciation and amortiation	2,963	(1,034)	1,929

	Six Months Ended June 30, 2023		
	As Reported	**Adjustment**	**As Restated**
Cost of goods sold	16,610	6,665	23,275
Gross profit before fair value adjustment	29,876	(6,665)	23,211
Fair value adjustments on inventory sold	(1,079)	5,631	4,552
Gross profit	20,705	(1,034)	19,671
Depreciation and amortiation	4,811	(1,034)	3,777

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

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

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

“Adjusted gross profit” is gross profit plus (minus) the changes in fair value of biological assets. “Adjusted gross margin” is “Adjusted gross profit” divided by revenue. “EBITDA” is net income (loss), plus (minus) interest expense (income) and finance transactions costs, plus taxes, plus depreciation and amortization. “EBITDA margin” is equal to EBITDA divided by revenue. “Adjusted EBITDA” is equal to EBITDA plus (minus) the changes in fair value of biological assets, plus (minus) the changes in fair market value of derivatives, plus (minus) certain one-time non-operating expenses, as determined by management. “Adjusted EBITDA Margin” is equal to Adjusted EBITDA divided by revenue.

Cansortium Inc. was incorporated under the laws of the Province of Ontario, Canada pursuant to the Business Corporations Act (Ontario) (“OBCA”) on August 31, 2018. The Company’s registered office is located at 365 Bay Street, Suite 800, Toronto, Ontario, M5H2V1and its head office is located at 5540 W. Executive Drive, Suite 100, Tampa, Florida 33609. The Company’s shares are listed on the Canadian Securities Exchange ("CSE") under the trading symbol “TIUM.U” and on the OTCQX under the trading symbol “CNTMF”.

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

Cautionary Note Regarding Forward-Looking Statements

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

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

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward looking statements included in this MD&A, the Company has made various material assumptions, including but not limited to the performance of the Company’s business and operations; the receipt and/or maintenance by the Company of required licenses and permits in a timely manner or at all; the intention to grow the business and operations of the Company; the expected growth in the number of the people using medical cannabis products; expectations of market size and growth in the United States; the competitive conditions and increasing competition of the cannabis industry; applicable laws, regulations and any amendments thereof; the competitive and business strategies of the Company; the Company’s operations in the United States, the characterization and consequences of those operations under federal United States law, and the framework for the enforcement of medical and adult use cannabis and cannabis related offenses in the United States; the completion of additional cultivation and retail facilities; the general economic, financial market, regulatory and political conditions in which the Company operates; the United States regulatory landscape and enforcement

related to cannabis, including political risks; anti-money laundering laws and regulation; other governmental and environmental regulation; public opinion and perception of the cannabis industry; the enforceability of contracts; reliance on the expertise and judgment of senior management of the Company; proprietary intellectual property and potential infringement by third parties; the concentrated voting control of the Company by certain shareholders of the Company and the unpredictability caused by the capital structure; risks inherent in an agricultural business; risks relating to energy costs; risks associated to cannabis products manufactured for human consumption including potential product recalls; reliance on key inputs, suppliers and skilled labor; cybersecurity risks; ability and constraints on marketing products; fraudulent activity by employees, contractors and consultants; tax and insurance related risks; risk of litigation; conflicts of interest; security risks; risks related to future acquisitions or dispositions; sales by existing shareholders; limited research and data relating to cannabis; the medical benefits, viability, safety, efficacy and social acceptance of cannabis; the availability of financing opportunities, the ability to make payments on existing indebtedness; risks related to pricing pressures in the states in which the Company operates; risks associated with economic, political and social conditions; risks related to contagious disease, particularly COVID-19 (Coronavirus); and other risks described in this MD&A and described from time to time in documents filed by the Company with Canadian securities regulatory authorities. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions, and other factors, including risks described in the public documents of the Company available at www.sedar.com.

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

Basis of Consolidation

This MD&A includes the accounts of the Company and its wholly and majority-owned subsidiaries. Subsidiaries over which the Company has control are fully consolidated from the date control commences until the date control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are currently exercisable are taken into account. Non-controlling interests in the equity of consolidated subsidiaries are shown separately in the consolidated statement of operations and in the consolidated statement of changes in shareholders' equity. All intercompany balances and transactions are eliminated on consolidation. The information below lists the Company's subsidiaries that are consolidated in the Condensed Interim Consolidated Financial Statements and the ownership interest held as June 30, 2023, and December 31, 2022.

	% Ownership June 30, 2023	% Ownership December 31, 2022
Cansortium Holdings LLC	100.00%	100.00%
Cansortium Pennsylvania, LLC	100.00%	100.00%
Cansortium Puerto Rico, LLC	100.00%	100.00%
Cansortium Texas, LLC	100.00%	100.00%
Cansortium Canada Holdings Inc.	100.00%	100.00%
Fluent Servicing, LLC	100.00%	100.00%
Cansortium Brazil Ltda.	100.00%	100.00%
Cansortium Florida, LLC	100.00%	100.00%
Cansortium Colombia S.A.S. [1]	50.00%	50.00%
Spirit Lake Road Nursery, LLC	100.00%	100.00%
Cansortium Michigan LLC	100.00%	100.00%
Cavern Capital Holdings LLC	100.00%	100.00%
Harvest Park Lot 9 Investors LLC	100.00%	100.00%
Harvest Park Lot 9 Investors No. 2 LLC	100.00%	100.00%
Fluent Hemp LLC	100.00%	100.00%
Cansortium Beverage Company Inc. [2]	-	100.00%
Cansortium International Inc.	100.00%	100.00%
Trick Tail Capital LLC	100.00%	100.00%

[1] The Company wrote-off its investment in Cansortium Colombia S.A.S as of December 31, 2022

[2] Cansortium Beverage Company Inc. was dissolved in May of 2022.

Business Overview

The Company, through its various U.S. subsidiaries, is licensed to produce and sell medical cannabis in Florida and Texas and is licensed to sell medical cannabis in Pennsylvania.

The Company discontinued its operations in Brazil during 2022.

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

Florida

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

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

As of the date of this MD&A, the Company operates a cultivation and production facility in Tampa, FL (the "Tampa Facility"), a cultivation facility in Zolfo Springs, FL (the "Sweetwater Facility"), and a cultivation facility in Polk City, FL (the "Polk Facility"). The Tampa Facility produces various products ranging from suppositories, topicals, inhalation vaporizers, oral, smoking and edibles.

The Tampa Facility is approximately 22,000 sq. ft. of indoor cultivation which includes 20,160 sq. ft. of flowering canopy over 6 levels. In the second quarter of 2022, the Company completed the expansion of the Tampa Facility with a new 24,225 sf. building that includes 9,000 sf. of new cultivation area and approximately 15,000 sf. of new production and office space. that became fully operational during the second quarter of 2022.

The Sweetwater Facility commenced operations in the fourth quarter of 2020 and includes 26,000 sq. ft. of indoor cultivation, production, administrative space, and a 40,000 sq. ft. greenhouse, on 15 acres.

The Polk Facility commenced operations in the third quarter of 2022 and includes a 27,000 sq. ft. greenhouse, on 72 acres with its first harvesting occurring in December 2022.

As of the date of this MD&A, the Company operates 32 dispensaries throughout the State of Florida. The Company expects to continue to grow its retail footprint in Florida in 2023.

Texas

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

Pennsylvania

The Company currently operates the three dispensaries it is licensed to operate in the south-central region of Pennsylvania for the sale of medical cannabis only. This dispensing permit allows for the purchase of finished products from permitted processors in the Commonwealth of Pennsylvania.

The Company's first dispensary in Pennsylvania, located in Hanover, PA, opened in June 2018. The Company's second dispensary in Pennsylvania, located in Mechanicsburg, PA, opened in August 2021. The third dispensary, located in Annville, opened in 2022.

Discontinued Operations

Michigan

In October 2018, the Company partnered with Green Standard Holdings LLC and Green Standard, Inc. (collectively, "Green Standard") to acquire cultivation, production, and future retail dispensary licenses from Green Standard. The current operation is an outdoor cultivation facility located in Bangor, MI, on which Green Standard currently holds 1 Class C Medical Cultivation License and 2 Class C Adult Cultivation Licenses which, in total, allows for the cultivation of up to 5,500 plants. On July 1, 2022, the Company terminated the purchase agreement with Green Standard and discontinued its operations in Michigan.

Colombia

The Company discontinued its operations in Colombia during the year ended December 31, 2019, in order to reduce operating expenses and focus the Company's resources on opportunities in the U.S. cannabis markets. On January 22, 2020, the Company completed the return to treasury of 4,124,166 shares of Cansortium Inc. previously issued to acquire 100% of Cansortium Colombia, and thereby reducing its ownership of Cansortium Colombia to 50%. During the year ended December 31, 2022, the Company wrote off its investment in Cansortium Colombia.

Products and Brands

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

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

Subsequent Events

Based on the advice of its legal and tax advisors, the Company determined that it was eligible to receive Employee Retention Credit ("ERC") initially enacted under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") from quarter one and quarter two of 2021 in the amount of $4,055 (the "Credit"). The Company submitted amended payroll tax returns to the IRS in the third quarter of 2023 for the Credit. In August 2023, the Company sold the Credit to a non-related third party for gross proceeds of $3,433.

On July 19, 2023, the Company entered into a seven-year lease to house our corporate office as part of the Company's headquarters relocation from Miami to Tampa Florida.

Management's Discussion & Analysis of the Company for the three months ended June 30, 2023 and 2022

FINANCIAL HIGHLIGHTS

	Three months ended		
Financial results	**June 30, 2023**	**June 30, 2022**	**Variance**
Revenue	$ 24,430	$ 22,416	$ 2,014
Gross profit	$ 12,158	$ 15,884	$ (3,726)
Gross margin	*49.8%*	*70.9%*	*-21.1%*
Gross profit before fair value adjustments [(1)]	$ 12,982	$ 15,011	$ (2,029)
Gross margin before fair value adjustments [(1)]	*53.1%*	*67.0%*	*-13.8%*
Selling, general and administrative expenses	$ 10,253	$ 8,203	$ 2,050
EBITDA [(1)]	$ 6,152	$ (1,297)	$ 7,449
Adjusted EBITDA [(1)]	$ 6,793	$ 10,174	$ (3,381)
Net income (loss)	$ (5,350)	$ (12,010)	$ 6,660
Net income (loss) per share (basic)	$ (0.02)	$ (0.05)	$ 0.03
Net income (loss) per share (diluted)	$ (0.02)	$ (0.05)	$ 0.03

Balance Sheet	June 30, 2023	June 30, 2022	Variance
Total assets	$ 173,192	$ 177,158	$ (3,966)
Total long-term liabilities	111,140	98,290	12,850
Total liabilities	$ 154,975	$ 134,610	$ 20,365

Notes:

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

QUARTERLY RESULTS OF OPERATIONS (three months ended June 30, 2023 and 2022) (all figures in 000's)

	Three months ended		
	June 30, 2023	June 30, 2022	Variance
Revenue, net of discounts	$ 24,430	$ 22,416	$ 2,014
Cost of goods sold	11,448	7,405	4,043
Gross profit before fair value adjustments [(1)]	12,982	15,011	(2,029)
Gross margin before fair value adjustments [(1)]	*53.1%*	*67.0%*	*-13.9%*
Realized fair value of increments on inventory sold	2,211	(8,594)	10,805
Unrealized change in fair value of biological assets	(3,035)	9,467	(12,502)
Gross profit	12,158	15,884	(3,726)
Gross profit margin	*49.8%*	*70.9%*	*-21.1%*
Expenses:			
General and administrative	2,571	2,319	252
Share-based compensation	177	-	177
Sales and marketing	5,576	4,190	1,386
Depreciation and amortization	1,929	1,694	235
Total expenses	10,253	8,203	2,050
Income (Loss) from operations	1,905	7,681	(5,776)
Other expense (income):			
Finance costs, net	$ 4,324	$ 3,843	$ 481
Change in fair market value of derivative	(442)	3,007	(3,449)
Loss on termination of a contract	82	-	-
Loss on debt settlement	-	1,136	(1,136)
Other expense	-	(373)	373
Total other (income) expense	$ 3,964	$ 7,613	$ (3,649)
Income (Loss) before taxes	(2,059)	68	(2,127)
Income taxes	3,291	3,504	(213)
Net loss from continuing operations	(5,350)	(3,436)	(1,914)
Net loss from discontinued operations	-	8,574	(8,574)
Net loss	$ (5,350)	$ (12,010)	$ 6,660

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

Revenue

Consolidated revenue for the three months ended June 30, 2023 increased 9.0% to $24,430, compared to $22,416 for the same period last year. Revenue for the three months ended June 30, 2023 consisted primarily of revenue generated through the Company's thirty-two Florida dispensaries, along with revenue from three dispensaries in Pennsylvania. In Texas, the Company completed its first B2B sale, contributing 9.0% year over year consolidated growth by $193.

Gross profit / Adjusted gross profit

Adjusted gross profit for the three months ended June 30, 2023 was $12,982 or 53.1% of revenue, versus adjusted gross profit of $15,011, or 67% of revenue, for the same period last year. The decreased adjusted gross profit was primarily due to higher cost of goods sold.

Gross profit for the three months ended June 30, 2023 was $12,158, or 49.8% of revenue, versus gross profit of $15,884, or 70.9% of revenue, for the same period last year. The variance in gross profit is due to downward pricing in markets where the Company competes and the impact resulting from the adjustment of the fair value of the biologic assets.

Selling, general and administrative expenses

Consolidated selling, general and administrative (SG&A) expenses for the three months ended June 30, 2023 and 2022 were as follows:

	Three months ended		
	June 30, 2023	June 31,2022	Variance
General and administrative expenses	$ 2,571	$ 2,319	$ 252
Share-based compensation	177	-	177
Selling and marketing expenses	5,576	4,190	1,386
Depreciation and amortization	1,929	1,694	235
Total expenses	$ 10,253	$ 8,203	$ 2,050

General and administrative expenses

General and administrative expenses for the three-month period ended June 30, 2023 increased $252 from $2,319 for the three months ended June 30, 2022 to $2,571. Increase in general and administrative expense is primarily related to additional costs incurred in moving the corporate office from Miami to Tampa Florida.

Share-based compensation

Increase in stock-based compensation of $177 is the result of Board Compensation being paid in stock as opposed to cash for the first quarter of 2023.

Selling and marketing expenses

Selling and marketing expenses increased $1,386 from $4,190 in the three months ended June 30, 2022 to $5,576 for the three months ended June 30, 2023. The increase is primarily attributable to increased headcount due to the expansion of four new stores in the Florida market, along with relocation costs associated with the corporate move to Tampa.

Depreciation and amortization expenses

Three months ended June 30, 2023 depreciation and amortization expense was $1,929 compared to the three months ended June 30, 2022 of $1,694, an increase of $235 due to the addition of Polk cultivation site which began development during the third quarter of 2022.

Consolidated selling, general and administrative expenses

Consolidated SG&A expenses of $10,253 for the three months ended June 30, 2023 increased by $2,050 compared to $8,203 for the three months ended June 30, 2022. Increase is the result of store expansion, relocation expense due to the move from Miami to Tampa, additional stock-based compensation, and higher depreciation expense as a result of the additional Polk cultivation site.

Other expense (income)

Other expense (income) for the three months ended June 30, 2023 and 2022 were as follows:

	Three months ended		
	June 30, 2023	June 30, 2022	Variance
Finance costs, net	$ 4,324	$ 3,843	$ 481
Change in fair market value of derivative	(442)	3,007	(3,449)
Loss (gain) on termination of a contract	82	1,136	(1,054)
Loss (gain) on disposal of assets	-	-	-
Other expense (income)	(0)	(373)	373
Total other expense (income)	$ 3,964	$ 7,613	$ (3,649)

Finance costs of $4,324 for the three months ended June 30, 2023 was comprised of interest expense of $2,134 related to the $71M Term Loan, $88 interest expenses related to the Debenture, debt issuance costs amortization of $1,104, right-of-use interest expense of $1,015, partially offset by $17 of interest income.

Finance costs of $3,843 for the three months ended June 30, 2022 was comprised of interest expense of $2,250 related to the $71M Term Loan, other interest expenses of $36, debt issuance costs amortization of $898, right-of-use interest expense of $662, partially offset by $3 of interest income.

During the three months ended June 30, 2023, the Company recognized a $442 gain in fair value on revaluation of the derivative liability associated with equity price guarantee instruments from the Fluent Servicing acquisition, versus a loss of $3,007 for the same period last year.

Total other expense during the three months ended June 30, 2023 consisted primarily of interest expense of $2,222, amortization of debt issuance costs of $1,104, right of use interest expense of $1,015, gain in fair market value of derivative of $442 and a loss on termination of contract of $82.

EBITDA

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

	Three months ended		
	June 30, 2023	June 31,2022	Variance
Net loss	$ (5,350)	$ (12,010)	$ 6,660
Finance costs, net	4,324	3,843	481
Income taxes	3,291	3,504	(213)
Depreciation and amortization	3,887	3,366	521
EBITDA	$ 6,152	$ (1,297)	$ 7,449

Adjusted EBITDA

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

	Three months ended		
	June 30, 2023	June 30, 2022	Variance
EBITDA	$ 6,152	$ (1,297)	$ 7,449
Change in fair value of biological assets	824	(873)	1,697
Change in fair market value of derivative	(442)	3,007	(3,449)
Loss on debt settlement	-	1,136	(1,136)
Gain on termination of contract	82	-	82
Share-based compensation	177	-	177
Discontinued operations	-	8,574	(8,574)
Loss on disposal of assets	-	-	-
Other non-recurring expense/(income)	-	(373)	373
Adjusted EBITDA	$ 6,793	$ 10,174	$ (3,381)

(1) Other non-recurring expense for the three months ended June 30, 2022, consists of expenses related to lease modifications.

FINANCIAL HIGHLIGHTS

	Six months ended		
Financial results	**June 30, 2023**	**June 30, 2022**	**Variance**
Revenue	$ 46,486	$ 42,128	$ 4,358
Gross profit	19,671	21,804	(2,133)
Gross margin	*42.3%*	*51.8%*	*-9.4%*
Gross profit before fair value adjustments [(1)]	23,211	26,557	(3,346)
Gross margin before fair value adjustments [(1)]	*49.9%*	*63.0%*	*-13.1%*
Selling, general and administrative expenses	18,649	16,895	1,754
EBITDA [(1)]	8,708	(2,512)	11,220
Adjusted EBITDA [(1)]	12,639	16,389	(3,750)
Net loss	(12,732)	(22,154)	9,422
Net loss per share (basic)	(0.05)	(0.09)	0.04
Net loss per share (diluted)	$ (0.05)	$ (0.09)	$ 0.04

Balance Sheet	**June 30, 2023**	**June 30, 2022**	**Variance**
Total assets	$ 173,192	$ 177,158	$ (3,966)
Total long-term liabilities	111,140	98,290	12,850
Total liabilities	$ 154,975	$ 134,610	$ 20,365

Notes:

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

QUARTERLY RESULTS OF OPERATIONS (six months ended June 30, 2023 and 2022)

(all figures in 000's)

	Six months ended		
	June 30, 2023	June 30, 2022	Variance
Revenue, net of discounts	$ 46,486	$ 42,128	$ 4,358
Cost of goods sold	23,275	15,571	7,704
Gross profit before fair value adjustments [(1)]	23,211	26,557	(3,346)
Gross margin before fair value adjustments [(1)]	*49.9%*	*63.0%*	*-13.1%*
Realized fair value of increments on inventory sold	4,552	(15,418)	19,970
Unrealized change in fair value of biological assets	(8,092)	10,665	(18,757)
Gross profit	19,671	21,804	(2,133)
Gross margin	*42.3%*	*51.8%*	*-9.5%*
Expenses			
General and administrative	4,883	5,160	(277)
Share-based compensation	415	100	315
Sales and marketing	9,574	8,277	1,296
Depreciation and amortization	3,777	3,358	418
Total expenses	18,649	16,895	1,754
Income (loss) from operations	1,022	4,909	(3,887)
Other expense (income)			
Finance costs, net	8,573	7,500	1,073
Change in fair market value of derivative	(164)	4,709	(4,873)
Loss from termination of a contract	3	-	3
Loss on debt settlement	-	1,136	(1,136)
Loss/(gain) on disposal of assets	70	-	70
Other expense	67	(375)	442
Total other expense	8,550	12,970	(4,420)
Loss before taxes	(7,528)	(8,061)	533
Income taxes	5,205	5,517	(312)
Loss from continuing operations	(12,732)	(13,578)	846
Loss from discontinued operations	-	8,576	(8,576)
Net loss	$ (12,732)	$ (22,154)	$ 9,422

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

Revenue

Consolidated revenue for the six months ended June 30, 2023, increased 10.3% to $46,486, compared to $42,128 for the same period last year. Revenue for the six months ended June 30, 2023, consisted primarily of revenue generated through the Company's thirty-two Florida dispensaries, along with revenue from three dispensaries in Pennsylvania, and the first business to business sales that occurred in Texas.

Gross profit / Adjusted gross profit

Adjusted gross profit for the six months ended June 30, 2023, was $23,211, or 49.9% of revenue, versus adjusted gross profit of $26,557, or 63.0% of revenue for the same period last year. The attribution of higher production outputs and expansion of new store helped stabilize a consistent margin in place.

Gross profit for the six months ended June 30, 2023, was $19,671, or 42.3% of revenue, versus gross profit of $21,804, or 51.8% of revenue for the same period last year. The variance in gross profit is due to downward pricing in markets where the Company competes and the impact resulting from the adjustment of the fair value of the biologic assets.

Selling, general and administrative expenses

Consolidated selling, general and administrative (SG&A) expenses for the six months ended June 30, 2023 and 2022 were as follows:

	Six months ended		
	June 30, 2023	June 30,2022	Variance
General and administrative expenses	$ 4,883	$ 5,160	$ (277)
Share-based compensation	415	100	315
Selling and marketing expenses	9,574	8,277	1,297
Depreciation and amortization	3,777	3,358	419
Total expenses	$ 18,649	$ 16,895	$ 1,754

General and administrative expenses

General and administrative expenses for the six-month period ended June 30, 2023 decreased by $277 compared to $5,160 for the six month period ended June 30, 2022. The decrease was primarily driven by cost reduction initiatives and efficiencies partially offset by relocation costs incurred due to the corporate headquarters move from Miami to Tampa Florida.

Share-based compensation

Increase in stock-based compensation of $315 is the result of Board Compensation being paid in stock as opposed to cash for the six months ended June 30, 2023 compared to the six months ended June 30, 2022.

Selling and marketing expenses

Selling and marketing expenses of $9,574 for the six-month period ended June 30, 2023, increased by $1,297 compared to the six-month period ended June 30, 2022 of $8,277. The increase is primarily attributable to increased headcount due to the expansion of four new stores in the Florida market, along with relocation costs associated with the corporate move to Tampa.

Depreciation and amortization expenses

Depreciation and amortization expense for the six-month period ended June 30, 2023 was $3,777 compared to $3,358 for the six-month period ended June 30, 2022 an increase of $419. The increase was primarily due to the addition of Polk cultivation site which began development during the third quarter of 2022.

Consolidated, general and administrative expenses

Consolidated SG&A expenses of $18,649 for the six-month period ended June 30, 2023 increased $1,754 compared to the six-month period ended June 30, 2022. This increase was primarily due to higher depreciation expenses related to new facilities, higher share-based compensation, increase in headcount in sales and marketing and increase in costs associated with corporate headquarters move from Miami to Tampa Florida. These increases were offset by decreases in general and administrative costs due to cost reduction initiatives and efficiencies.

Other expense (income)

Other expense (income) for the six months ended June 30, 2023 and 2022 were as follows:

	Six months ended		
	June 30, 2023	June 30, 2022	Variance
Finance costs, net	$ 8,573	$ 7,500	$ 1,073
Change in fair market value of derivative	(164)	4,709	(4,873)
Loss on terminiaton of a contract	3	-	3
Loss on debt settlement	-	1,136	(1,136)
Loss on disposal of assets	70	-	70
Other expense/(income)	67	(375)	442
Total other expense	$ 8,549	$ 12,970	$ (4,421)

Finance costs of $8,573 for the six months ended June 30, 2023 were comprised of interest expense of $4,244 related to the $71M Term Loan, $179 interest expenses related to the Debenture, debt issuance costs amortization of $2,139, right-of-use interest expense of $2,036, partially offset by $24 of interest income.

Finance costs of $7,500 for the six months ended June 30, 2022 was comprised of interest expense of $4,470 related to the $71M Term Loan, other interest expenses of $75, debt issuance costs amortization of $1,713, right-of-use interest expense of $1,317, partially offset by $75 of interest income.

During the six months ended June 30, 2023, the Company recognized a $164 gain in fair value on revaluation of the derivative liability associated with equity price guarantee instruments from the Fluent Servicing acquisition, versus a loss of $4,709 for the same period last year.

Loss on disposal of assets for the six months ended June 30, 2023 was primarily due to the write off of decommissioned equipment and vehicles.

Total other expense during the six months ended June 30, 2023 primarily consisted of interest expense of $4,545, amortization of debt issuance costs of $1,713, right of use interest expense of $1,317, gain in fair market value of derivative of $164 and a loss on termination of contract of $3.

EBITDA

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

	Six months ended		
	June 30, 2023	June 30,2022	Variance
Net loss	$ (12,732)	$ (22,154)	$ 9,422
Interest expense	8,573	7,500	1,073
Income taxes	5,205	5,517	(312)
Depreciation and amortization	7,662	6,625	1,037
EBITDA	$ 8,708	$ (2,512)	$ 11,220

Adjusted EBITDA

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

	Six months ended		
	June 30, 2023	June 30,2022	Variance
EBITDA	$ 8,708	$ (2,512)	$ 11,220
Change in fair market value of derivative	(164)	4,709	(4,873)
Loss on debt settlement	-	1,136	(1,136)
Loss on termination of contract	3	-	3
Share-based compensation	415	100	315
Change in fair value of biological assets	3,540	4,753	(1,213)
Discontinued operations	-	8,576	(8,576)
Other non-recurring expense [(1)]	137	(373)	510
Adjusted EBITDA	$ 12,639	$ 16,389	$ (3,750)

(1) Other non-recurring expense for the six months ended June 30, 2023 and 2022, consists of expenses related to lease modifications.

HISTORICAL QUARTERLY RESULTS

The following table sets out certain financial information for each of the eight fiscal quarters up to and including the second quarter of 2023. The information has been derived from the Company's audited consolidated financial statements, which, in management's opinion, have been prepared on a basis consistent with the condensed interim unaudited consolidated financial statements for the three and six months ended June 30, 2023 and 2022.

Quarter ended ($ in 000's)	Jun-30 2023	Mar-31 2023	Dec-31 2022	Sep-30 2022	Jun-30 2022	Mar-31 2022	Dec-31 2021	Sep-30 2021
Revenue	$ 24,430	$ 22,056	$ 23,464	$ 22,100	$ 22,416	$ 19,712	$ 18,284	$ 15,568
Gross profit before fair value adjustment	12,982	10,229	726	16,681	15,011	11,546	11,765	9,763
Gross profit	12,158	7,513	5,527	9,634	15,884	5,920	8,268	10,763
Income (loss) from operations	$ 1,905	$ (883)	$ (2,233)	$ 1,181	$ 7,681	$ (2,772)	$ 147	$ 2,266

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2023, the Company had $8,797 in cash and cash equivalents. The major components of the Company's statements of cash flows for the six months ended June 30, 2023 and 2022 are as follows:

	Six months ended		
	June 30, 2023	June 30, 2022	Variance
Cash and cash equivalents provided by operating activities	$ 9,960	$ 10,067	$ (107)
Cash and cash equivalents used in investing activities	(4,339)	(4,189)	(150)
Cash and cash equivalents used in financing activities	(5,183)	(6,131)	948
Effect of foreign exchange on cash and cash equivalents	-	87	(87)
Net change in cash and cash equivalents	$ 438	$ (166)	$ 604

Operating activities

Cash flow provided by operating activities for the six months ended June 30, 2023 was $9,960 compared to cash flow provided by operating activities of $10,067 for the same period last year. The cash use in 2023 compared to 2022 is related to the expansion of operations in the Tampa Facility and the improvement of operations of cultivation and production of the Sweetwater Facility.

Investing activities

Cash flow used in investing activities for the six months ended June 30, 2023 was $4,339, compared to $4,189 for the same period last year. The increase of $150 in cash used in investing activities was mainly driven by the construction of new dispensaries.

Financing activities

Cash flow used in financing activities for the six months ended June 30, 2023 was $5,183 compared to cash flow used in financing activities of $6,131 for the same period last year. The decrease of $948 in cash used in financing activities was primarily driven by reduction in repayments of the $71M Term Loan partially offset by decrease in proceeds from issuance of shares.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company leases certain business facilities from third parties under lease agreements that specify minimum rentals. The leases expire through 2035 and contain certain renewal provisions. Future minimum lease payments under non-cancelable leases having an initial or remaining term of more than one year are as follows:

For the twelve month period ending June 30,	Scheduled Payments
2024	$ 6,366
2025	6,375
2026	6,394
2027	6,468
2028	5,937
Thereafter	29,061
Total future minimum lease payments	**$ 60,601**

SUMMARY OF OUTSTANDING SHARE DATA

As of June 30, 2023, the share capital of the Company on a fully diluted basis is 329,100,800. This is comprised of 272,418,520 common shares, 2,592,664 proportionate voting shares (each proportionate voting share is convertible into ten common shares), 43,534,060 warrants and 10,555,556 stock options as of June 30, 2023.

Earnings per share have been calculated using the weighted average number of shares outstanding during a period on a total outstanding and fully dilutive basis. The potential conversion of warrants, convertible debt, and stock options into common shares have a dilutive effect on earnings per share. The weighted average number of basic and diluted shares for the six months ended June 30, 2023 are presented in the table below:

	June 30, 2023	December 31, 2022
Weighted average number of shares - basic	286,804,241	252,698,567
Weighted average warrants	40,601,969	39,389,699
Weighted average options	12,566,169	16,410,568
Weighted average number of shares - diluted	339,972,379	308,498,834

TRANSACTIONS WITH RELATED PARTIES

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities for the Company, directly and indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For the six months ended June 30, 2023 and 2022, key management personnel compensation consisted of the following:

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Salary	$ 714	$ 659	$ 1,425	1,132
Option-based compensation	-	-	29	-
All other compensation	163	200	325	400
Total	$ 876	$ 859	$ 1,779	$ 1,532

Transactions with related parties

On February 28, 2023, the Company closed a non-brokered private placement offering of 30,000,000 units, at a price of $0.10 per unit, for aggregate gross proceeds of $3,000,000. Each unit consists of one common share of the Company and one-half common share purchase warrant. Each full warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.15 per full common share purchase warrant for a period of 36 months from the issuance date. As part of the private placement, the Company issued to its Executive Chairman 10,000,000 shares and 5,000,000 warrants (See Note 16(f) in the Interim Consolidated Financial Statements for the Three Months ended March 31, 2023)

On January 6, 2023 and June 2, 2023, the Company issued to its Board of Directors' members, 1,354,167 and 2,031,250 shares at $0.12 per share and $0.08 per share, respectively, as compensation resulting in an increase to share capital of $325 for the six-month period ending June 30, 2023.

CRITICAL ACCOUNTING ESTIMATES

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

Critical judgments, estimates and assumptions that have the most significant effect on the amounts recognized on the condensed interim consolidated financial statements for the three and six months ended June 30, 2023 and 2022, are included in Note 2 of the audited annual consolidated financial statements for the years ended December 31, 2022 and 2021.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, note receivable, accounts payables and accrued liabilities, derivative liability, lease obligations and notes payable. See note 21 "Financial instruments and financial risk management" to the condensed interim consolidated financial statements for the three and six months ended June 30, 2023 and 2022, for the assessment of related risks.

UNITED STATES REGULATORY ENVIRONMENT

Federal Regulatory Environment

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

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

The current Attorney General, Merrick Garland, was sworn in on March 11, 2021. To date, Mr. Garland has not provided a clear policy directive for the United States as it pertains to the enforcement of federal laws on state-legal marijuana-related activities.

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

- ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;
- ensure that its cannabis related activities adhere to the scope of the licenses obtained (for example: in the states where cannabis is permitted for recreational adult use, the products are only sold to individuals who meet the requisite age requirements);
- implement policies and procedures to ensure that cannabis products are not distributed to minors;
- implement policies and procedures to ensure that revenue is not distributed to criminal enterprises, gangs or cartels;
- implement adequate inventory tracking systems and necessary procedures to ensure that such compliance system is effective in tracking inventory and preventing diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;

- ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, and is not engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes; and
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and to prevent impaired driving.

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

As of December 31, 2022, 99% of the Company's assets were and continue to be exposed to U.S. marijuana related activities. By these measures 99% of the Company's assets and operations were related to U.S. marijuana related activities.

U.S. Legal Advice

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

Compliance Program

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

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

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

- compliance with applicable state and local laws
- safe cannabis use
- dispensing procedures
- cultivation and processing procedures
- security and safety policies and procedures
- inventory control

- point of sale and seed to sale tracking software
- quality control
- transportation procedures

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

The Company is in compliance with U.S. state law and the related licensing framework in each state in which it has active marijuana operations. The Company uses reasonable commercial efforts to ensure that its business is in compliance with applicable licensing requirements and the regulatory frameworks enacted by these states, through the duties of the Director of Compliance and Chief Legal Officer, who monitor and review the Company's business practices and changes to U.S. Federal enforcement priorities.

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

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

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

State Regulatory Environment

Florida

Regulatory Framework

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

Florida Statutes

Section 381.986, Florida Statutes, governs the cultivation, processing, dispensing, and ordering of marijuana for medical use in Florida by qualified Florida-licensed physicians for medical use by qualified patients. Under this law, "medical use" means "acquisition, possession, use, delivery, transfer, or administration of marijuana authorized by a physician certification." Legally permitted routes of administration include oil-based products, edibles, and smoking.

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

Chapter 64-4, Florida Administrative Code

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

U.S. Attorney Statements

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

Licensing and Compliance in Florida

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

To ensure compliance with state requirements, the Company has implemented a robust compliance program based on its standard operating procedures, which have been adapted to comply with the requirements of Florida law. Regular audits are conducted of all sales, deliveries and video surveillance to ensure dispensation are conducted appropriately to identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process to ensure appropriate chain of custody from initial plant to finished product being dispensed to the patient. Patients and caregivers, furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring, but must pass a drug screening as well. The company also utilizes either cloud-based or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, OMMU makes regular announced or unannounced inspections of the facility, therefore ensuring compliance on a daily basis is a top priority.

Licenses

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

In the State of Florida, the Department issues licenses to produce and sell medical cannabis i.e. the MMTC License (formerly a Dispensing Organization License).

The MMTC License held by the Company's Florida subsidiary was renewed for a two-year term effective August 12, 2022.

Dispensary Requirements

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

Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities

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

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

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

Transportation Requirements

When transporting cannabis to dispensaries or to patients for delivery, a manifest must be prepared, and transportation must be done using an approved vehicle. The cannabis must be stored in a separate, locked area of the vehicle and at all times there must be two people in a delivery vehicle. During deliveries, one person must remain with the vehicle. The delivery employees must at all times have identification badges. The manifest for all deliveries must be generated by the State approved tracking software. The manifest must include the following information: (i) departure date and time; (ii) name, address and license number of the originating MMTC; (iii) name and address of the receiving entity; (iv) the quantity, form and delivery device of the cannabis; (v) arrival date and time; (vi) the make, model and license plate of the delivery vehicle; and (vii) the name and signatures of the MMTC delivery employees. These manifests must be kept by the MMTC for inspection for up to three (3) years. During the delivery, a copy of the manifest is also provided to the recipient.

Department Inspections

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

Pennsylvania

Regulatory Framework

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

Pennsylvania Medical Marijuana Act

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

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

A dispensary may only dispense medical marijuana to a patient or caregiver in an indoor, enclosed, secure facility as approved by the Pennsylvania Department of Health. The dispensary must have an approved operation plan that includes appropriate safety, security, surveillance, inventory tracking, record keeping, and maintenance measures. It may only dispense medical marijuana to a patient or caregiver who presents a valid identification card to an employee at the facility who is authorized to dispense medical marijuana at the facility. The dispensary must employ and have on-site at all times the facility is open for dispensing a physician, pharmacist, physician assistant or certified registered nurse practitioner who has undergone required medical marijuana training. This medical professional may consult with patients regarding proper dosage and administration of medical marijuana for their condition if the referring physician has not done so. The entire transaction must be tracked in the commonwealth's seed-to-sale electronic tracking system.

Licensing and Compliance in Pennsylvania

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

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

Permits

Cansortium Pennsylvania, LLC received its original dispensary permit on June 29, 2017 and was valid for one year. The permit has been renewed each year since, and the current permit is valid through June 29, 2023. The permit allows the holder to operate up to three (3) dispensaries in the Southcentral Region of Pennsylvania (i.e. Adams, Bedford, Blair, Cumberland, Dauphin, Franklin, Fulton, Huntingdon, Juniata, Lebanon, Mifflin, Perry and York counties).

Dispensary Requirements

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

Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities

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

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

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

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

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

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

(6) Records retention: (i) if a dispensary has been notified in writing by the Pennsylvania Department of Health or its authorized agents, law enforcement, or other Federal, State or local government officials of a pending criminal or administrative investigation for which a recording may contain relevant information, the dispensary shall retain an unaltered copy of the recording for four (4) years or until the investigation or proceeding is closed or the entity conducting the investigation or proceeding notifies the dispensary that it is not necessary to retain the recording, whichever is longer; (ii) a dispensary shall install

commercial-grade, non-residential steel doors and door locks on each room where medical marijuana products are stored and on each external door of the facility. Keys or key codes for all doors shall remain in the possession of designated authorized individuals; (iii) during all nonworking hours, all entrances to and exits from the facility must be securely locked; (iv) a dispensary shall have an electronic back-up system for all electronic records; (v) a dispensary shall install lighting to ensure proper surveillance inside and outside of the facility; and (vi) a dispensary shall limit access to a room in a facility containing security and surveillance monitoring equipment to persons who are essential to maintaining security and surveillance operations including, Federal, State and local law enforcement, security and surveillance system service employees, the Pennsylvania Department of Health or its authorized agents, and other persons with the prior written approval of the Pennsylvania Department of Health. The following requirements apply: (1) a dispensary shall make available to the Pennsylvania Department of Health or the Pennsylvania Department of Health's authorized agents, upon request, a current list of authorized employees and service employees or contractors who have access to any security and surveillance areas; and (2) a dispensary facility shall keep security and surveillance rooms locked at all times and may not use these rooms for any other purpose or function.

Storage Requirements

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

Pennsylvania Department of Health Inspections

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

Texas

Regulatory Framework

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

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

Compassionate Use Act

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

the plant *Cannabis Sativa L.*, and any part of that plant or any compound, manufacture, salt, derivative, mixture, preparation, resin, or oil of that plant that contains:
(A) not more than 0.5 percent by weight of tetrahydrocannabinols; and

(B) not less than 10 percent by weight of cannabidiol.

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

Administrative Rules

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

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

Production is limited under the rules; DPS will only issue sufficient licenses to provide the epileptic population of Texas with the most current scientifically accepted dosage. The amount of production permitted is recalculated every year as provided in the rules. As of December 31, 2022, DPS has issued three (3) dispensing organization licenses: The Company's subsidiary in Texas was licensed on September 1, 2017 and holds one (1) of the three (3) issued licenses.

U.S. Attorney Statements

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

Licensing and Compliance in Texas

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

The Company's subsidiary in Texas currently holds and operates a Dispensing Organization license in Texas. To ensure compliance with state requirements, the Company has implemented a robust compliance program based on its standard operating procedures which have been adapted to comply with the requirements of Texas law. Regular audits are conducted of all sales, deliveries and video surveillance to ensure dispensation are conducted appropriately and identify and/or prevent diversion activities. All departments conduct regular staff meetings to discuss and identify updated needs or issues to address. Products are scanned and tracked throughout the entire process to ensure appropriate chain of custody from initial plant to finished product being dispensed to the patient. This ensures that in the event of a recall event, the company has the capability of identifying the suspect products back to the original batch from the greenhouse. Additionally, a visitor request form must be approved for all non-employee guests visiting any facility, and such guests must be logged upon entry and wear a visitor ID badge at all times. All deliveries to patients or dispensaries are conducted in unmarked, nondescript vehicles which maintain interior and exterior security and surveillance features, as well as global positioning system tracking capabilities. Patients and caregivers,

furthermore, must have their identification confirmed in the statewide secure database, and they must have an active recommendation from a physician to be dispensed medication. All employees must not only pass the state required criminal history screening as a condition to hiring but must pass a drug screening as well. The company also utilizes either cloud-based or internal secure servers for the storage of information, both of which follow HIPAA guidelines. Lastly, the state has the capability to make announced or unannounced inspections of any facility, therefore ensuring compliance on a daily basis is a top priority.

Licenses

The Company's subsidiary in Texas obtained a Dispensing Organization License from the Department of Public Safety on September 1, 2017. This license allows the Company's subsidiary in Texas to cultivate and produce cannabis as well as operate a dispensary at the cultivation site. The license also allows for home delivery of the product. The current license was renewed in September 2021 and expires on October 1, 2023. The Company's subsidiary in Texas holds one (1) of the three (3) licenses issued by the Department of Public Safety in Texas (as of December 31, 2022).

Dispensary Requirements

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

Security and Storage Requirements for Cultivation, Processing and Dispensing Facilities

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

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

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

Transportation Requirements

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

Department Inspections

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

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

Risks Specifically Related to the United States Regulatory System

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

The Company's business incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company and, therefore, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

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

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

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

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments

there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future operations and investments of the Company in the United States. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future operations and investments in the United States.

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

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

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

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

Additionally, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's businesses would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business, and its investments.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the CSA published Staff Notice 51-352 setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

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

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

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company and its subsidiaries, including their reputations and ability to conduct business, their holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of any publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

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

- the activities of the Company and its subsidiaries are subject to evolving regulation that is subject to changes by governmental authorities in Canada, the U.S. and internationally and such authorities could impose restrictions on the Company's and its subsidiaries' ability to operate;
- third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's and its subsidiaries' cannabis business activities;
- the Company's ability to repatriate returns generated from operations and investments in the U.S. may be limited by anti-money laundering laws;
- under Section 280E of the Internal Revenue Code, certain normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, certain of the subsidiaries will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable, business may in fact operate at a loss after taking into account its income tax expenses. There is no certainty that the Company and the subsidiaries will not be subject to Section 280E of the Internal Revenue Code in the future, and accordingly, there is no certainty that the impact that Section 280E of the Internal Revenue Code has on the Company's margins will ever be reduced;
- federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's or any subsidiary's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company or any subsidiaries will be able to maintain its existing accounts or obtain new accounts in the future; and
- although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

The Company and its subsidiaries are subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental

authorities in the United States, Canada and internationally. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a chequing account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

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

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

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

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

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

Ability to Access Private and Public Capital

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

Service Providers

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

Enforceability of Contracts

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

Admissibility to the U.S.

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

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

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

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

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

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

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

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

The Leahy Amendment was set to expire with the 2018 fiscal year on December 31, 2018 ("**2018 Fiscal Year**"), however, Congress approved a nine-week continuing resolution from the 2018 Fiscal Year (the "**Continuing Resolution**"). The Continuing Resolution has the purpose of providing ongoing and consistent protection for the medical cannabis industry until December 7, 2018. Congress has been negotiating the 2019 Fiscal Year appropriations since February 2018. The much relied upon appropriations protecting the medical cannabis industry were renewed in both the House and Senate versions of the 2019 Fiscal Year Appropriations bills, with the expectation that the language will be included in the final 2019 Fiscal Year Appropriations Bill. However, it should be noted that there is no assurance that the final 2019 Fiscal Year Appropriations Bill will include appropriations protecting the medical cannabis industry. Until Congress agrees on the 2019 Fiscal Year Appropriations Bill, Congress may pass additional continuing resolutions from the 2018 Fiscal Year, which resolutions would provide ongoing and consistent protection for the medical cannabis industry.

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

On January 25, 2019, President Trump ended the government shutdown but announced that he may shutdown the government again on February 15, 2019 if, by that time, Congress has not agreed on the final 2019 Fiscal Year Appropriations Bill which includes sufficient funding for a border wall between the United States and Mexico. On February 15, 2019, President Trump avoided another government shutdown and signed the 2019 Fiscal Year Appropriations Bill which included the Leahy Amendment, extending its application until the end of the 2019 fiscal year on December 31, 2019. There can be no assurances that the Leahy Amendment will be included in future appropriations bills.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the U.S. Controlled Substances Act, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in a future budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government would have the authority to prosecute individuals for violations of the law before it lacked funding under the five (5) year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provides no protection against businesses operating in compliance with a state's recreational cannabis laws.

Regulatory Action and Approvals from the Food and Drug Administration

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

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

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

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

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

On December 28, 2018, the Agricultural Improvement Act of 2018 (commonly known as the "**2018 Farm Bill**") was signed into law. The 2018 Farm Bill, among other things, removed industrial hemp and its cannabidiols, including CBD derived from industrial hemp, from the Controlled Substances Act and will amend the Agricultural Marketing Act of 1946 to allow for industrial hemp production and sale in the United States. Under the Farm Bill, industrial hemp is defined as "the plant Cannabis sativa L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis." The U.S. Department of Agriculture will promulgate regulations for the industrial hemp industry, the timing of which cannot be assured. Additionally, the 2018 Farm Bill does not legalize CBD derived from "marihuana" (as such term is defined in the Controlled Substances Act of 1970), which is and will remain a Schedule I controlled substance under the Controlled Substances Act of 1970. It is not yet known what role the USFDA will have in regulating industrial hemp and CBD derived from industrial hemp.

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

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