



**MANAGEMENT DISCUSSION AND ANALYSIS  
OF THE FINANCIAL POSITION AND RESULTS OF OPERATIONS  
FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2020**

Expressed in United States Dollars

Dated: April 5, 2021



## FOR THE THREE MONTHS AND YEAR ENDED DECEMBER 31, 2020 REPORT TO SHAREHOLDERS AND MANAGEMENT DISCUSSION AND ANALYSIS

Expressed in United States Dollars

### TO OUR SHAREHOLDERS

This management's discussion and analysis of the financial condition and results of operation ("MD&A") of Planet 13 Holdings Inc. ("P13" or the "Company") should be read in conjunction with P13's audited consolidated financial statements for the year ended December 31, 2020 and related notes therein.

Except as otherwise indicated, all financial data in this MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

All dollar amounts in this MD&A are reported in United States Dollars except where otherwise indicated. As at December 31, 2020, the Company had a working capital surplus of \$83,084,355 and had reported a net loss of \$7,941,525 for the year ended December 31, 2020.

Further information about the Company, its operations and other continuous disclosure documents, including the Company's annual information form, press releases and management information circular are available through filings with the securities regulatory authorities in Canada under the Company's profile (Planet 13 Holdings Inc.) at [www.sedar.com](http://www.sedar.com).

### A CAUTIONARY NOTE

*This document contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, its subsidiaries and its projects, the future supply, demand, inventory, production and price of raw cannabis, the timing and amount of estimated future production, costs of production, capital, operating costs, requirements for additional capital, government regulation operations, environmental risks, , limitations of insurance coverage and access to the US Banking system and the timing and possible outcome of pending litigation and regulatory matters.*

*Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, the Company's business model; U.S. regulatory landscape and enforcement related to cannabis, including political risks; risks related to capital raising due to heightened regulatory scrutiny; risks related to quantifying the Company's target market; risks related to access to banks and credit card payment processors; risks related to lack of U.S. federal trademark and patent protection; risks related to the enforceability of contracts; risks related to potential violation of laws by banks and other financial institutions; risks related to service providers withdrawing or suspending services under threat of prosecution; risks related to tax liabilities; and heightened scrutiny by Canadian regulatory authorities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.*



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The following table outlines certain significant forward-looking statements contained in this MD&A and provides the material assumptions used to develop such forward-looking statements and material risk factors that could cause actual results to differ materially from the forward-looking statements.

<b>Forward-Looking Information</b>	<b>Key Assumptions</b>	<b>Most Relevant Risk Factors</b>
Future funding for strategic business initiatives	The Company will continue to be able to operate its businesses in the state of Nevada and raise the necessary funds to advance its strategic growth objectives.	Cannabis-Related Practices or Activities are Illegal Under U.S. Federal Laws  The concepts of “medical cannabis” and “recreational cannabis” do not exist under U.S. federal law. The U.S. <i>Federal Controlled Substances Act</i> classifies “marijuana” as a Schedule I drug. Accordingly, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under U.S. federal law, nor will it provide a defence 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.

Inherent in forward-looking statements are risks, uncertainties and other factors beyond the Company’s ability to predict or control. Please also refer to those risk factors in the “Risk Factors” section below. Readers are cautioned that the preceding table does not contain an exhaustive list of the factors or assumptions that may affect the forward-looking statements, and that the assumptions underlying such statements may prove to be incorrect. Actual results and developments are likely to differ, and may differ materially from those expressed or implied by the forward-looking statements contained in this MD&A.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company’s actual results, performance or achievements to be materially different from any of its anticipated results, performance or achievements expressed or implied by forward-looking statements. All forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements whether as a result of new information or future events or otherwise, except as may be required by



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law. If the Company does update one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect to those or other forward-looking statements, unless required by law.

#### CORPORATE OVERVIEW

The Company is a Corporation continued on June 26, 2019 under the jurisdiction and laws of British Columbia which holds MM Development Company, Inc. (“MMDC”), a vertically integrated US subsidiary corporation active in the cultivation, production, distribution, and retail sale of both medical and recreational cannabis which at the date of this MD&A is restricted to the state of Nevada. For purposes of this MD&A, reference to the Company may also include MMDC as a wholly owned and controlled subsidiary of Company. The Company holds six cultivation licenses operating at three licensed cultivation facilities, each location operating jointly under a medical and adult-use cultivation license. One cultivation license is located in Clark County Nevada (Las Vegas) in an approximately 16,100 square foot facility with indoor cultivation and a perpetual harvest cycle. This facility has a current production capacity of approximately 2,100 lbs/year (950 kg/year) of dried cannabis. The second cultivation license is located near the town of Beatty in Nye County, Nevada. The facility currently houses approximately 500 square feet of research and development and genetics testing. The Beatty site has the potential for over 2,300,000 square feet of greenhouse production capacity on 80 acres of owned land with municipal water and abundant electrical power already at the edge of the property. The third cultivation license is located in Clark County Nevada (Las Vegas) in a 25,000 square foot facility in Las Vegas, Nevada. This facility has the ability to expand to 45,000 square feet. The Company also has six production licenses operating at three licensed production facilities, each location operating jointly under a medical and adult-use cultivation license, four are located in Clark County. Two of the four were previously co-located within the 15,000 square foot cultivation facility and were approximately 2,300 square feet. These two licenses were relocated to the 14,000 square foot customer facing production facility that opened inside the Planet 13 Superstore cannabis entertainment complex in November 2019. This facility incorporates butane hash oil extraction (BHO extraction), distillation equipment and microwave assisted extraction equipment as well as a state-of-the-art bottling and infused beverage line and an edibles line able to produce infused chocolates, infused gummies and other edible products. The second production facility is co-located at the Beatty facility and the third facility is co-located in the 25,000 square foot cultivation facility but is not active at present. The Company also has three dispensary licenses. Two licenses are operating at one licensed dispensary facility, one license is medical and the other is for adult-use retail sales. The licenses operate out of the same joint location and presently occupy approximately 16,000 square feet of retail space located adjacent to the Las Vegas Strip where the Company opened, on November 1, 2018, a cannabis entertainment complex (the “Planet 13 Superstore”). Prior to November 1, 2018, the licenses operated out of a 2,300 square foot facility located approximately six miles off the Las Vegas Strip (the “Medizin Facility”). The licenses were transferred to the Planet 13 Superstore location on October 31, 2018. The Company was successful in its litigation and was awarded an additional Clark County recreational license and has transferred the license to the Company’s Medizin dispensary that was closed when the licenses were transferred to the Planet 13 Superstore. The Company reopened the Medizin dispensary on November 20, 2020. The Company has also been granted a distribution license and launched a distribution and delivery service in Nevada to augment its retail locations and be able to deliver product to both wholesale customers and local Nevada state residents throughout the state of Nevada.

The Company opened the second phase of the Planet 13 Superstore location with ancillary offerings that include a coffee shop, restaurant and event space in November 2019. The Company is in the process of completing the build out of a merchandise store and CBD store selling the Company’s Planet M branded CBD products inside the Planet 13 Cannabis entertainment complex. The Company also announced that it is expanding the dispensary floor space by approximately 7,000 square feet and adding new entertainment features. The expansion is designed to reduce wait times for customers by adding an additional 40 POS terminals and improve on the already fantastic customer experience and is expected to be completed in late Q3 2021. The Company also plans to build a potential cannabis lounge in a segregated area of the facility where patrons will be able to consume products that have been purchased at the dispensary should the state and county pass the necessary legislation that legalizes consumption lounges and the



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Company is successful in obtaining a license for such activity. The Planet 13 Superstore also houses the Company's corporate offices. In addition, the production facility housed within the SuperStore complex, described above, has enabled the Company to expand its vertical integration and increase the amount of its own branded products that are sold in the Planet 13 Superstore as well as re-entering the wholesale market selling concentrates, edibles and infused beverages.

On July 17, 2020, the Company expanded its premium indoor cultivation capacity and added additional production and distribution capabilities with the purchase of the inventory, equipment and tenant improvements and cannabis cultivation, production and distribution licenses located in a 25,000 square foot facility in Las Vegas, Nevada (the "Facility"), which has the ability to expand to 45,000 square feet (the "WCDN Asset Acquisition"). The WCDN Asset Acquisition allows the Corporation to solidify its vertical integration in Nevada.

On May 20, 2020, the Corporation acquired (the "**Santa Ana Acquisition**") all of the issued and outstanding common stock (the "**Newtonian Shares**") of Newtonian Principles Inc. ("**Newtonian**"), resulting in the Company acquiring a provisional cannabis retail license, adult use issued by the State of California Bureau of Cannabis Control (the "**California License**") and a regulatory safety permit issued by the City of Santa Ana (the "**Santa Ana Permit**"), which were both held by Newtonian, and a 30-year lease for a dispensary in Santa Ana, California (the "**Santa Ana Premise**") along with certain other assets (collectively, the "**Warner Assets**") from Warner Management Group, LLC ("**Warner**"). Newtonian had no operations at the time of the Santa Ana Acquisition. As of the date of this MD&A, although the Company holds the California License and the Santa Ana Permit, the Company conducts no operations in the State of California. Upon application made, on September 25, 2020, the Corporation's subsidiary Newtonian received a City of Santa Ana Regulatory Safety Permit Phase 1 for distribution at the Santa Ana Premise, and plans to open a distribution facility upon completion of construction and receipt of the Regulatory Safety Permit Phase 2 from the City of Santa Ana. The Corporation will commence retail sales operations at the Santa Ana Premises upon completion of its planned facility build-out and expansion within the Santa Ana Premise and regulatory authorization to re-open the improved Santa Ana Premise. Until such time, the Company intends to continue to hold the California License and the Santa Ana Permit and submit applications for renewals of such license and permit as required. The Company has engaged a design team and is proceeding with a construction schedule. The construction budget for the 33,000 square foot adult-use retail facility and distribution at the Santa Ana Premise is US\$7.5 million to \$8.0 million, with approximately 6% of this budget allocated to the design phase. Although there have been minor delays due to temporary staffing shutdowns at the City of Santa Ana related primarily to COVID-19, and the City of Santa Ana not allowing in-person plan submissions, plan review is ongoing with the City of Santa Ana, and based on this timeline, the project is estimated to be completed in Q2 2021. While the Company does not anticipate further delays to this schedule, due to the ongoing COVID-19 pandemic, there may be further delays at various stages of the construction process, including during permitting or during the construction phase of the project.

The Company was incorporated on March 20, 2014, as a domestic limited liability company (LLC). On March 14, 2018, MMDC underwent a statutory conversion to a Nevada domestic corporation named MM Development Company, Inc. On June 11, 2018, the Company then completed a reverse-take-over ("**RTO**") transaction of Carpincho, and the resulting entity was renamed Planet 13 Holdings Inc. MMDC continues to exist and conducts licensed Nevada state cannabis operations and is owned 100% by the Company.

The focus of activity during the year ended December 31, 2020, was to continue to grow and provide cannabis and cannabis related products to the Company's medical cannabis and adult recreational customers as well as selling branded recreational and medical cannabis products and related cannabis products to its growing customer base. In addition, the Company has been focused on the continued planning phases of the cannabis operation in Santa Ana California and on integrating the WCDN Asset Acquisition into its Nevada operations.

The Company experienced record revenue in the months of January and February 2020 and was on track to experience similar growth levels during the month of March 2020 up to March 17, 2020. On March 19, 2020, the Company



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announced that it would continue to provide core dispensary services during the Coronavirus pandemic and encouraged all local Nevada resident customers to utilize the Company's express pick-up and/or delivery services so as to limit personal interactions and practice social distancing as recommended by the Centre for Disease Control. On March 17, 2020, Nevada State Governor Steve Sisolak announced the closure of all non-essential business starting at noon on March 18, 2020 for 30 days as part of the State's response to curb the threat of the spread of the COVID-19 virus. This shutdown was extended until June 1, 2020. On April 30, 2020, all retail cannabis dispensaries in Nevada were allowed to offer online ordering with curbside pick-up in addition to delivery and on May 7, 2020, as part of the State of Nevada's COVID 19 reopening plan, all dispensaries were allowed to reopen to the general public at significantly reduced number of customers allowed in the facility at the same time. All dispensaries are allowed to have a maximum of 50% of the dispensary location's fire rated occupancy level. The shutdown due to COVID-19 during the months of April, May and June had a material impact on the Company's business in Q2 2020 from the business closures and lack of tourist traffic in Las Vegas coupled with the reduction in allowed customer traffic during the shutdown period. The partial reopening of resorts, hotels and casinos resulted in increased tourist traffic to Las Vegas and an increase of customers to the Planet 13 Superstore in the July to October period and coincided with a return of in-store retail sales, with the Store operating at 50% capacity under COVID-19 social distancing safety measure and protocols, coupled with continued online ordering with home delivery and curbside pick-up. This saw operations return to and surpass pre-COVID -19 revenue and EBITDA levels in the months of July to October 2020. The State of Nevada initiated renewed COVID 19 restriction s in November 2020, and, coupled with the lockdowns in California that drastically reduced the amount of tourist traffic to Las Vegas during November and December, caused a significant reduction in tourist traffic to the Superstore during the final two months of 2020. The easing of restrictions in Nevada and surrounding states in January 2021 and the move to further open the State of Nevada on February 15, 2021, has resulted in an increase in tourist traffic to the Superstore during the first three months of 2021, though customer traffic has not yet returned to the July 2020 - October 2020 levels.

The Company cautions that current global uncertainty with respect to the spread of the COVID-19 virus and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remain unknown, rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company.

### DESCRIPTION OF THE U.S. LEGAL CANNABIS INDUSTRY

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – Issuers with U.S. Marijuana-Related Activities ("**CSA Notice 51-352**"), 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. In accordance with CSA 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.

#### Use of Cannabis

Marijuana is a preparation of the leaves and flowering tops of cannabis sativa, the hemp plant which contains several pharmacologically active principles (cannabinoids).

Medical cannabis refers to the use of cannabis and its constituent cannabinoids, such as tetrahydrocannabinol ("**THC**") and cannabidiol ("**CBD**"), as medical therapy to treat disease or alleviate symptoms. The cannabis plant has a history of medicinal use dating back thousands of years across many cultures.

Smoking cannabis is the most traditional form of ingestion and consists of smoking the dried flowers or leaves of the cannabis plant. Cannabis can be smoked through a pipe, rolled into a joint (or cigarette), or smoked using a water pipe



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(bong). Vaporizing involves using a vaporizer, which is a device that is able to extract the therapeutic ingredients in the cannabis plant material at a much lower temperature than required for burning. This allows users to inhale the active ingredients as a vapor instead of smoke. Many medical marijuana patients find that vaporizing offers an improved medical effectiveness, compared to smoking.

Topical cannabis encompasses herbal medicines that are applied directly to the skin or muscles. They include lotions, salves, balms, sprays, oils, and creams. Some patients report they are effective for skin conditions like psoriasis, joint diseases like rheumatoid arthritis, migraines, restless leg syndrome, some spasms, and everyday muscle stress and soreness. Unlike smoking, vaporizing or eating cannabis, topical products which are typically low in THC and higher in CBD are generally non-psychoactive.

#### Nevada

Despite legal, regulatory and political obstacles, the U.S. cannabis industry continues to experience substantial growth. Nevada was one of the first states to legalize adult-use cannabis and is projected to remain a significant market in the U.S., largely due to the tourism industry. As reported by the Nevada Department of Taxation, medical and adult-use sales totalled \$252,076,486 in the first six months following legalisation on July 1, 2017, and totalled \$580,113,455 for the year ended December 31, 2018. Reported sales for the 12 months ended December 31, 2019, totalled \$701,700,416 and sales for the 12 months ended December 31, 2020 totalled \$789,278,483. ([https://tax.nv.gov/Publications/Marijuana\\_Statistics\\_and\\_Reports/](https://tax.nv.gov/Publications/Marijuana_Statistics_and_Reports/)).

## LEGAL AND REGULATORY MATTERS

### United States Federal Overview

At the federal level, cannabis currently remains a Schedule I controlled substance under the U.S. Controlled Substance Act of 1970 (the "CSA"). Despite this federal prohibition, 48 states and the District of Columbia have either decriminalized or legalized adult-use and/or medical cannabis, and of the two states that have not yet decriminalized or authorized cannabis, Nebraska has decriminalized the first offense. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

While technically illegal, the U.S. federal government's approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the U.S. Department of Justice ("DOJ") issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or adult-use cannabis programs. The Cole Memorandum, while not legally binding, assisted in managing the tension between state and federal laws concerning state-regulated marijuana businesses.

However, on January 4, 2018, the Cole Memorandum was revoked by former Attorney General Jeff Sessions. While this did not create a change in federal law - as the Cole Memorandum was not itself law - the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated. Sessions also issued a one-page memorandum known as the "Sessions Memorandum." This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement



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priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum does emphasize that marijuana is a Schedule I controlled substance and states the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise guide U.S. Attorneys that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether to prosecute marijuana-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions' resignation, and Matthew Whitaker serving as Acting United States Attorney General, William Barr was appointed as US Attorney General on January 15, 2019. William Barr stated at his confirmation hearing to the Senate Judiciary Committee that he would "not go after companies" that had relied upon the Obama-era guidance (the Cole Memorandum) that former Attorney General Jeff Sessions had rescinded in states where cannabis has been legalized. It is unclear what impact, if any, Attorney General William Barr's comments will have on the enforcement of federal regulation of marijuana in the United States. In Nevada, the U.S. Attorney has yet to make any comments regarding the revocation of the Cole Memorandum or indicate any changes to enforcement priorities.

While it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum, a nationwide "crackdown" is unlikely. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would more than likely create unwanted political backlash for the DOJ and the Trump administration. It is also possible that the rescission of the Cole Memorandum could motivate Congress to finally reconcile federal and state laws. Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the U.S. has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018, prior to the Cole Memorandum being rescinded. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the U.S., could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses.

Despite these laws, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("**FinCEN**") issued a memorandum on February 14, 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("**SAR**") in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the "**2014 Cole Memo**") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related





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conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

However, former Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, 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 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. However, in the United States, it is difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution. Furthermore, on January 15, 2019, US Attorney General William Barr stated during his confirmation hearings and to the Senate Judiciary panel that, "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum."

In the U.S., the SAFE Banking Act of 2019, H.R. 1595, passed a vote on September 25, 2019, through a vote by the Committee of the Whole Congress, and is now awaiting action in the U.S. Senate. Generally, the act would let banks offer services to cannabis-related businesses. They could also offer services to those businesses' employees. There can be no assurance with that H.R. 1595 will be passed in its current form or at all. In both Canada and the U.S., transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions. On October 1, 2020, the U.S. House voted approval for the updated HEROES Act, H.R. 6800, which includes the provisions of the SAFE Banking Act at Section 110606. A push to include the SAFE Banking Act provisions in the end-of-year 2020 COVID-19 stimulus bills failed, though hope remained it could pass in 2021 if reintroduced.

Although the Cole Memo and 2014 Cole Memo have been rescinded, Congress has used the Rohrabacher-Leahy Amendment as a rider provision in the FY 2015, 2016, 2017, 2018, 2019 and 2020 Consolidated Appropriations Acts 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. Prior to the expiration of the Rohrabacher-Leahy Amendment, the U.S. House of Representatives passed the BMNL Amendment on July 30, 2020, which restricts the United States Department of Justice from investigating or prosecuting conduct and commerce related to both state medical marijuana and adult-use marijuana programs. In late-2020, the BMNL Amendment was renewed through a series of stopgap spending bills on October 1, December 11, December 18, December 20, and December 22. On December 27, 2020, the BMNL Amendment was renewed through the signing of the FY 2021 omnibus spending bill, effective through September 30, 2021. While the U.S. House of Representatives passed the BMNL Amendment, there can be no certainty that Congressional support for the BMNL Amendment will continue after the September 30, 2021 expiration, and after that date there can be no assurance that the federal government will not seek to prosecute cases including medical and adult-use cannabis businesses that are otherwise compliant with State law.

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow. It was anticipated that the federal government would eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation, production and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco.

Given current political trends, however, these likelihood of these developments remains unknown in the near-term. 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;



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- ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted for 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 system 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 pretence for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;
- 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 prevent impaired driving.

In addition, the Company may (and frequently does) conduct background checks to ensure that the principals and management of 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 will also conduct ongoing reviews of the activities of its cannabis businesses, 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, including the cases where such possession is permitted by regulation.

#### **Nevada State Level Overview**

In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Nevada Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process was merit-based, competitive, and is currently closed.

Nevada has a medical marijuana program and passed an adult-use legalization through the ballot box in November 2016. Under Nevada's adult-use marijuana law, the state licensed marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. For the first 18 months after legalization, applications to the Department for adult-use establishment licenses were only accepted from existing medical marijuana establishments and from existing liquor distributors for the adult-use distribution license. The Nevada Division of Public and Behavioral Health (the "Division") licensed and regulated medical marijuana establishments up until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the DOT. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency was known as the "Marijuana Enforcement Division of the Department of Taxation". The DOT oversaw regulation of cannabis operations until the CCB took over on July 1, 2020. As of October 5, 2020, all five members of the CCB have been appointed by the Nevada Governor.

In February 2017, the state announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses expired at the end of the year and, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana



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inventory as either medical or adult-use marijuana. All cannabis cultivated, and infused products produced under the adult-use program that were not existing inventory at a medical marijuana dispensary were transported to retail marijuana stores utilizing a licensed retail marijuana distributor. Starting on July 1, 2017, medical and adult-use marijuana became subject to a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis is subject to an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

The regular retail marijuana program began in early 2018. The Regulation and Taxation of Marijuana Act specifies that, for the first 18 months of the program, only existing medical marijuana establishment certificate holders could apply for a retail marijuana establishment license. As that restriction expired in November 2018, on December 5, 2018, DOT expanded the application process and awarded an additional 61 licenses for retail marijuana dispensaries in Nevada. The regular program was governed by permanent regulations found in Nevada Administrative Code Sections 453A and 453D through June 30, 2020.

In early 2019, Nevada legislature passed Nevada Assembly Bill 533 (“AB533”), which authorized the formation of the CCB to be vested with the authority to license and regulate persons and establishments engaged in cannabis activities within Nevada and promulgated statutes which will replace Nevada Revised Statute (“NRS”) 453A and 453D effective on July 1, 2020. Those statutes are currently codified at NRS 678A, B, C and D. On July 21, 2020, the CCB adopted final Nevada Cannabis Compliance Regulations 1 through 15 (or, “NCCR”) which are substantially similar to the former Nevada Administrative Code Sections 453A and 453D.

In response to industry feedback, on October 20, 2020 the CCB amended NCCR 5 to give clarity regarding public company ownership of Nevada cannabis companies. Generally, those amendments include such companies being required to provide to the CCB notice of annual general meetings of shareholders and a non-objecting beneficial owners (“NOBO”) list as of the record date of each such meeting, and disclosure of any stockholders having 5% or greater ownership interest or that are able to exert control over a Nevada marijuana establishment. Additionally, the CCB requires an updated list of all beneficial owners, regardless of amount or type of ownership, but if a list of all beneficial owners cannot be obtained through reasonable cost and/or effort, the publicly traded company must provide an updated NOBO list as of the annual meeting record date, and explain why it cannot provide a list of all beneficial owners through reasonable cost and effort.

The recent CCB amendments to NCCR 5 are expected to have a minimal impact on the Corporation. The amendments were enacted by the CCB to balance its mandate to conduct background checks on individuals having an ownership interest in cannabis establishments, with the CCB-acknowledged impossibility for publicly traded companies holding Nevada cannabis establishments to meet this requirement at all times and for all stockholders, objecting and non-objecting. The CCB has been informed previously by the Corporation that it is unreasonable in cost and effort, and in fact impossible, to obtain a list of objecting beneficial owners of the Corporation, and thus the Corporation would be unable to provide such information to the CCB. The CCB acceded to this point as it would be unreasonable to impose such a requirement on the Corporation. Other than for this requirement, the Corporation will comply with the requirements of the amended NCCR 5.

Nevada does not have any U.S. residency requirements with respect to license ownership, but does require background checks of all individuals having an ownership interest. Background checks are waivable for individuals having less than 5% ownership interest, and the Corporation has submitted waiver requests to the state for all ownership interests <5%. In addition, vertical integration is neither required nor prohibited. All medical marijuana sales are made subject to the recipient holding a registry identification card issued by the State of Nevada as defined at NRS 678A. 235. The Corporation is permitted to sell medical marijuana products to non-Nevada patients as non-Nevada patients are permitted reciprocity under NRS 678C.470.

There are five types of retail marijuana establishment licenses:



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Cultivation Facility – Licenses to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.

Distributor - Licenses to transport marijuana from a marijuana establishment to another marijuana establishment.

Product Manufacturing Facility - Licenses to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers.

Testing Facility - Licenses to test marijuana and marijuana products, including for potency and contaminants.

Retail Store - Licenses to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

MMDC applied for and did not receive any of the 61 new licenses granted by DOT on December 5, 2018. Upon review of this result, the Corporation determined that there were significant irregularities in the license application and review process. MMDC filed a complaint against the State of Nevada and DOT on December 10, 2018, and concurrently pursued all available administrative remedies (the “DOT License Matter”). MMDC requested a judicial review of the license application process and the scoring criteria utilized by DOT, and requested that the court award MMDC monetary damages as a result of DOT’s failure to properly award licenses and that the court award retail dispensary licenses to MMDC. As of August 23, 2019, as a result of discrepancies discovered in the application process administered by the State of Nevada, a court issued a partial preliminary injunction against the State of Nevada from moving forward with the numerous holders of provisional licenses awarded under the December 5, 2018 provisional license awards.

After the first week of trial in July 2020, MMDC entered into a settlement agreement with the State of Nevada, and defendants in intervention to receive a license in unincorporated Clark County to reopen the Medizin location. On July 31, 2020, the Nevada Tax Commission convened and approved the signed Nevada License Settlement and requested that the CCB, which had authority over Nevada-licensed cannabis businesses as of July 1, 2020, also convene and approve the settlement. On August 7, 2020, the CCB convened and approved the Nevada License Settlement. Pursuant to the Nevada License Settlement, the Corporation’s subsidiary MMDC agreed to a release and waiver of its claims against the State of Nevada and the defendants in intervention, in return for MMDC receiving the provisional unincorporated Clark County adult-use dispensary license originally received by Nevada Organic Remedies in December 2018. Pursuant to a letter dated September 3, 2020, the CCB transferred the conditional Clark County dispensary license to MMDC. On November 20, 2020, the Corporation opened the Medizin store location, having received CCB final inspection approvals and a Clark County business license.

Under AB533, in addition to their general authority and oversight of cannabis operations in Nevada, the CCB is mandated with studying the feasibility and safe implementation of licensing for lounges, and to make recommendations to the 2021 Nevada legislature. The Corporation has previously worked with the CCB and regulators to provide information regarding the safety and feasibility of consumption lounges. If the State of Nevada authorizes the operation of cannabis lounges in Nevada, the Corporation is well-positioned, operationally and by virtue of the Planet 13 Superstore location, to apply for a lounge license(s).

#### California State Level Overview

In 1996, California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996. This legalized the use, possession, and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief.



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In 2003, Senate Bill 420 was signed into law establishing an optional identification card system for medical marijuana patients. In September 2015, the California legislature passed three bills collectively known as the Medical Cannabis Regulation and Safety Act (“MCRSA”). The MCRSA established a licensing and regulatory framework for medical marijuana businesses in California. The system created multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the Adult-Use of Marijuana Act (“AUMA”) creating an adult-use marijuana program for adults 21 years of age or older. AUMA had some conflicting provisions with MCRSA, so in June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act (“MAUCRSA”), which amalgamates MCRSA and AUMA to provide a set of regulations to govern a medical and adult-use licensing regime for cannabis businesses in the State of California. The four agencies that regulate marijuana at the state level are the Bureau of Cannabis Control (“BCC”), California Department of Food and Agriculture, California Department of Public Health, and California Department of Tax and Fee Administration.

MAUCRSA came into effect on January 1, 2018. One of the central features of MAUCRSA is known as “local control.” In order to legally operate a medical or adult-use marijuana business in California, an operator must have both a local and state license. This requires license holders to operate in cities or counties with marijuana licensing programs. Cities and counties in California are allowed to determine the number of licenses they will issue to marijuana operators or can choose to outright ban marijuana.

The Corporation (through Newtonian) is in compliance with applicable licensing requirements and the regulatory framework enacted by the State of California.

State cannabis licenses in California must be renewed annually. Depending on the jurisdiction, the Corporation's local authorizations must generally be renewed annually as well. Each year, licensees are required to submit a renewal application per State cannabis regulatory guidelines. Provided renewal applications are submitted in a timely manner, the Corporation can expect the renewals to be granted in the ordinary course of business.

On January 10, 2020, the three commercial cannabis licensing agencies in California, the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health (collectively, “California Licensing Agencies”) announced that California Governor Gavin Newsom’s budget proposal for cannabis industry regulation and taxation included plans to consolidate the three licensing entities that are currently housed at the California Licensing Agencies into a single Department of Cannabis Control by July 2021. Per the announcement, the “Establishment of a standalone department with an enforcement arm will centralize and align critical areas to build a successful legal cannabis market, by creating a single point of contact for cannabis licensees and local governments. The Administration will provide more details on this proposal in spring 2020.”

The announcement also included a proposal for tax simplification by moving the point of collection from the responsibility for the cultivation excise tax from the final distributor to the first, and for the retail excise tax from the distributor to the retailer. Per a May 15, 2020 Summary of Governor Gavin Newsom’s May Budget Revision for the 2020-21 Fiscal Year (the “May Revision”) provided by the California Cannabis Industry Association, the Governor’s May budget revision postponed agency consolidation as a result of the COVID-19 pandemic to the 2021-22 fiscal year budget.

Considering the delayed cannabis consolidation effort, the May Revision maintains funding for licensing and enforcement activities within the existing licensing entities, with some modifications. When asked whether anything would be proposed relative to agency consolidation in the 2020 legislative year, Nicole Elliott (Senior Advisor on Cannabis, Governor Gavin Newsom) suggested that uniform licensing protocols and regulatory clean-up were under



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consideration and could be part of a short-term, as well as a longer-term strategy. Additionally, the tax simplification for cannabis has been postponed until 2021.

MAUCRSA allows local municipalities and jurisdictions to authorize the on-site consumption of cannabis by state-licensed retailers and/or microbusinesses. If a city or county permits it, retailers and microbusinesses can have on-site consumption if: (i) access to the area where cannabis consumption is allowed is restricted to persons 21 years of age and older, (ii) cannabis consumption is not visible from any public place or nonage-restricted area, and (iii) the sale or consumption of alcohol or tobacco is not allowed on the premises.

The City of Santa Ana is silent on on-site consumption and does not explicitly prohibit cannabis lounges and on-site consumption by licensees. Santa Ana does prohibit the on-site sales of alcohol or tobacco products, (excluding rolling papers and lighters) and no on-site consumption of food, alcohol or tobacco by patrons. Currently, on-site consumption is permitted in various forms in the City of West Hollywood, San Francisco, City of Oakland, City of Alameda and Palm Springs.

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

The Company is in compliance with U.S. state law and the related licensing framework. The Company uses reasonable commercial efforts to confirm, through the advice of its U.S. counsel, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. Federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. The Company is not aware of the receipt by any of its subsidiaries of noncompliance orders, citations or notices of violation, that may have an impact on such entities' licences, business activities or operations.

#### **Regulatory Risks**

The U.S. cannabis industry 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 impact on actual results.

Participants in the U.S. cannabis industry will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, 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. 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 its ability to conduct its 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 the Company's financial statements also could occur for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable.

The U.S. cannabis 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 growth uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of the Company and which cannot be reliably predicted.

The Company expects to derive the majority of its revenues from the U.S. cannabis industry, which industry is illegal under U.S. federal law. As a result of the conflicting views between state legislatures and the federal government regarding cannabis, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The Company remains focused in the state of Nevada, which has legalized the medical and recreational adult-use of



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cannabis, but the Company is moving forward with plans to expand in other states with licensed marijuana opportunities. The U.S. federal government has not enacted similar legislation, and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the CSA. The federal government of the U.S. has specifically reserved the right to enforce federal law in regard to the sale and disbursement of medical or recreational adult-use marijuana even if state law sanctioned such sale and disbursement. It is presently unclear whether the U.S. federal government intends to enforce federal laws relating to cannabis where the conduct at issue is legal under applicable state law. This risk was further heightened by the revocation of the Cole Memorandum in January 2018.

Further, 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 government 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 will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. 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, then the Company's business would be materially and adversely affected. U.S. 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. The Company's involvement in the medical and recreational adult-use cannabis industry is illegal under the applicable federal laws of the United States and may be illegal under other applicable law. 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. 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.

#### **Nature of the Company's Involvement in the U.S. Cannabis Industry**

The Company has a material direct involvement in the cannabis industry in Nevada. Currently, the Company is directly engaged in the cultivation, manufacture and production, possession, use, sale and distribution of cannabis in the medical and adult-use recreational cannabis marketplace in Nevada. Approximately 100% of the Company's assets and revenues are directly attributable to the medical and recreational adult-use cannabis market in Nevada. The Company holds cultivation, production and retail distribution licenses for the State of Nevada.

As previously stated, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the 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, including its reputation and ability to conduct business, the listing of its securities on any stock exchange, its financial position, operating results and profitability. 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. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.

The Company's involvement in the U.S. cannabis industry is presently only in the States of Nevada and California. The Company may, in future periods, expand its operations outside of Nevada and California and intends to restrict such future expansion to (i) only in those states that have enacted laws legalizing cannabis; and (ii) only in those states where the Company can comply with state (and local) laws and regulations and has the licenses, permits or authorizations to properly carry on each element of its business.

In addition, the Company will continue to ensure it is in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada by continuous review of its licenses and affirmation certifications from management.



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The Company will continue to monitor, evaluate and re-assess the regulatory framework in the States of Nevada and California and any state that it may look to expand its operations to in the future, and the federal laws applicable thereto, on an ongoing basis; and will update its continuous disclosure regarding government policy changes or new or amended guidance, laws or regulations regarding cannabis in the U.S.

#### **Anti-Money Laundering Laws and Regulations**

The Company is subject to a variety of laws and regulations in the U.S. 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) and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S.. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

The Company's activities, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains illegal federally in the U.S. This may restrict the ability of the Company to declare or pay dividends or effect other distributions. Furthermore, while the Company has no current intention to declare or pay dividends on its common shares (the "**Common Shares**") in the foreseeable future, the Company may decide to, or be required to, suspend declaring or paying dividends without advance notice and for an indefinite period of time.

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

Prior to the RTO, the Company relied entirely on access to private capital in order to support its continuing operations and capital expenditure requirements. The Company expects to rely on both private and public capital markets to finance its growth plans in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and despite the legal standing of cannabis businesses pursuant to U.S. federal laws, the Company has been successful and believes it will continue to be successful in raising private and public financing in the future. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due to their unwillingness to be associated with activities which violate U.S. federal laws.

#### **Compliance with Nevada and California State Law**

The Corporation complies with applicable Nevada state licensing requirements as follows: (i) MMDC is licensed pursuant to applicable Nevada state law to cultivate, possess and/or distribute marijuana in Nevada; (ii) renewal dates for such licenses are docketed by legal counsel and/or other advisors; (iii) random internal audits of the Corporation's business activities are conducted by the applicable Nevada state regulator and by the Corporation to ensure compliance with applicable Nevada state law; (iv) each employee of the Corporation is provided with an employee handbook that outlines internal standard operating procedures in connection the cultivation, possession and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana are properly accounted for and tracked and using scanners to confirm each customer's legal age and the validity of each customer's drivers' license; (v) each room that marijuana inventory and/or proceeds from the sale of such inventory enter is monitored by video surveillance; (vi) software is used to track marijuana inventory from seed to sale; and (vii) the Corporation is contractually obligated to comply with applicable Nevada state law in the United States in connection with the cultivation, possession and/or distribution of marijuana in Nevada.

The Corporation, through its subsidiary Newtonian, holds the Santa Ana Permit and the California License. In order to qualify for these licenses, the Corporation submitted applications with detailed plans and procedures evidencing to the applicable regulators that it complies with all statutory and regulatory requirements in California for the operation of the licenses. The Corporation has further retained a California regulatory consultant, with experience operating





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regulatory-compliant California license operations, to advise the Corporation on regulatory requirements and updates in that state.

The Corporation has a full time General Counsel on staff in Nevada, who is a licensed attorney under the State Bar of Nevada, in good standing, whose responsibilities include monitoring the day-to-day activities of staff, including ensuring that the established standard operating procedures are being adhered to at each stage of the cultivation, processing and distribution cycle, to identify any non-compliance matters and to put in place the necessary modifications to ensure compliance. The General Counsel, performs monthly, unannounced audits against the Corporation's established standard operating procedures and State of Nevada regulations. Each employee is provided with an employee handbook outlining the standard operating procedures and state regulations upon hiring and is then provided with one on one quality and regulatory training through programs overseen by the General Counsel. The General Counsel works regularly with the Corporation's California regulatory consultant and oversees all aspects of services provided in connection with the Santa Ana Permit and the California License to ensure compliance and continuity of those licenses. See "Directors and Officers".

The Corporation's licenses are in good standing to cultivate, possess and/or wholesale marijuana in the State of Nevada and the Corporation, through MMDC, is in compliance with Nevada's marijuana regulatory program. MMDC has responded to all DOT and CCB inspections and received approval on all corrective actions.

The Corporation is in compliance with U.S. state law and the related licensing framework. The Corporation uses reasonable commercial efforts to confirm, through the advice of its General Counsel, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. Federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada and California. The Corporation's General Counsel works with external legal advisors in Nevada and California to ensure that the Corporation and its subsidiaries are in compliance with applicable state laws, specifically in Nevada and California, including:

- weekly correspondence and updates with advisors;
- development of standard operating procedures with respect to cultivation, processing and distribution;
- ongoing monitoring of compliance with operating procedures and regulations by on-site management;
- appropriate employee training for all standard operating procedures; and
- subscription to monitoring programs to ensure compliance with the FinCEN Memorandum.

The Corporation, through MMDC, has not received any noncompliance orders, citations or notices of violation that remain uncorrected or that may have an ongoing impact on MMDC's licenses, business activities or operations.

In addition, the Corporation will continue to ensure it is in compliance with applicable licensing requirements and the regulatory framework enacted in Nevada and California by continuous review of its licenses and affirmation certifications from management. Each new license received by MMDC undergoes both internal and independent reviews, and is subject to all compliance monitoring and requirements that are applied to existing licenses held or controlled by the Corporation. While the Corporation's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. See "Risk Factors".

#### Reporting Requirements

Both California and Nevada have selected Franwell Inc.'s METRC solution ("METRC") as the state's track-and-trace system used to track commercial cannabis activity and movement across the distribution chain ("seed-to-sale"). Individual licensees whether directly or through third-party integration systems are required to push data to the state



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to meet all reporting requirements. For all licensed facilities, the Corporation has designated an in-house computerized seed to sale software that integrates with METRC via an application programming interface, and captures the required data points for cultivation, manufacturing and retail as required by Nevada and California statutes and regulations.

#### Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, the Company does the following in full compliance with statutes and regulations:

- have an enclosed, locked facility, with appropriate entrance security;
- trained employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring;
- installed sophisticated, regulatory-compliant security equipment to deter and prevent unauthorized entrances.
- installed security alarms to alert local law enforcement of unauthorized breach of security; and
- implemented security procedures that:
  - restrict access of the establishment to only those persons/employees authorized to be there;
  - deter and prevent theft;
  - provide identification (badge) for those persons/employees authorized to be in the establishment;
  - prevent loitering;
  - require and explain electronic monitoring; and
  - require and explain the use of automatic or electronic notification to alert local law enforcement of an unauthorized breach of security.
  -

#### SIGNIFICANT EVENTS AND TRANSACTIONS IN THE PERIOD

Normally the Planet 13 Superstore is open 24 hours, seven days a week, 365 days per year. However, the Company has been operating the Planet 13 Superstore at reduced hours and at a reduced capacity in order to comply with COVID-19 social distancing and operating protocols (such as limiting the number of customers in the facility to 50% of the fire rated capacity of the building). The Company has organically grown its customer database and has introduced a customer loyalty program to help continue to drive both customer visits and product demand.

The Company was on track to experience record revenue in the month of March prior to the COVID-19 shutdown. On March 19, 2020, the Company announced that it would continue to provide core dispensary services during the Coronavirus pandemic and encouraged all local Nevada resident customers to utilize the Company's express pick-up and/or delivery services to limit personal interactions and practice social distancing as recommended by the Centre for Disease Control. On March 20, 2020 Nevada State Governor, Steve Sisolak announced the closure of all non-essential business starting at noon on March 18, 2020 for 30 days as part of the State's response to curb the threat of the spread of the COVID-19 virus. On April 30, 2020, the State of Nevada announced that all licensed dispensaries could offer online ordering and curbside pickup in addition to online ordering and delivery. On May 7, 2020, as part of the State of Nevada's COVID-19 reopening plan, all dispensaries were allowed to reopen under certain conditions, mainly the requirement that



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the number of customers allowed in any dispensary be limited to a maximum of 50% of the fire-rated capacity of the premises or 10 customers, whichever was less. On June 15, 2020 Nevada expanded its reopening and allowed the Company to operate at 50% of the fire rated occupancy capacity of the building. This allows for approximately 250 customers on the 16,000 square feet of the dispensary floor space at any one time. The Company also offers its customers the option of ordering online with home delivery, ordering online for curbside pickup as well as the ability for customers to purchase products inside the dispensary.

The Company had a total of 29 delivery vehicles in its fleet and, during the month of April 2020, prior to the introduction of curbside pickup on April 30, 2020, the company was making approximately 1,000 deliveries per day. With the introduction of curbside pickup, the overall daily number of customers served during April and May remained similar but the shift in customer preference resulted in approximately 2/3 of orders being fulfilled through home delivery and 1/3 through curbside pickup. The introduction of in-store purchasing, prior to the reopening of hotels and resorts on the Las Vegas Strip, led to a modest increase in the overall number of customers with online delivery representing approximately 2/3 of total customer orders. With the reopening of a number of hotel and resort properties in June 2020 and the lifting of the 10-person maximum at cannabis dispensaries to 50% of the fire rated occupancy capacity led to a significant increase in customer traffic during the month of June which continued through July and August 2020 as tourist customers returned to Las Vegas. The increase in in-store customer traffic has led to a decrease in both curbside pick-up and on-line ordering/home delivery customers to the extent that the Company reduced its delivery fleet to 20 vehicles. The company intends to shift a portion of its delivery vehicles to its Santa Ana location once it is open as the demand for delivery in California is expected to be greater than it is in Nevada and the Company anticipates that the added delivery component at its planned Santa Ana location will enhance the number of customers that it is able to serve. The Company's online ordering/home delivery and curbside pick-up continues to serve local Las Vegas residents and generated approximately \$1.2 million in revenue during the month of July 2020, or approximately 17% of total sales. This is over 8 times higher than the highest month of delivery pre-COVID.

The State of Nevada announced its reopening plans as of June 1, 2020 and a number of resorts and casino properties have reopened with limited capacity and tourist customers have begun returning to the Las Vegas Strip.

The Company's in-house brands, HaHa Gummies, Dreamland Chocolate, TRENDI, Medizin, Leaf & Vine and our line of HaHa beverages, made up 28.4% of revenue, a significant increase over the 14.5% experienced during Q4 2019. The success of our brands coupled with the recent addition of additional indoor cultivation capacity should enable the Company to achieve its goal of becoming 50% vertically integrated.

While it is too early to forecast what the long-term customer demand will be as the Las Vegas economy reopens, or predict the timing and number of tourist customers that will return to Las Vegas on a on-going basis, the Company notes that it has experienced a return to pre-COVID levels of customers with revenue during Q3 2020 at or near record levels every month. Q3 revenue was approximately \$22.8 million, an increase of 110% over Q2 2020 (Q2 was negatively impacted by COVID-19 related shutdowns). Revenue growth was driven by a strong rebound of in-store sales and the growth in both home delivery and curbside pick-ups.

Q4 2020 revenue was approximately \$20.1 million, a decrease of 11.8% over Q3 2020 (Q4 was negatively impacted by COVID-19 related shutdowns). The Superstore served an average of 1,528 customers per day in-store with an average ticket size of approximately \$107.

The State of Nevada initiated renewed COVID 19 restrictions in November 2020, and, coupled with the lock-downs in California that drastically reduced the amount of tourist traffic to Las Vegas during November and December, caused a significant reduction in tourist traffic to the Superstore during the final two months of 2020.

- Superstore In-Store revenue of \$15.0 million in Q4 2020 compared to \$16.1 million in Q4 2019.
- Delivery & Curbside revenue of \$3.4 million in Q4 2020 compared to \$325 thousand in Q4 2019.
- Wholesale & Other revenue of \$1.1 million in Q4 2020 compared to \$78.6 thousand in Q4 2019.



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- Medizin In-Store revenue of \$651 thousand in Q4 2020 compared to *\$nil* in Q4 2019.
- Total revenue of \$20.1 million in Q4 2020 compared to \$16.5 million in Q4 2019, an increase of 21.8%.

The Company announced that it was expanding the Las Vegas SuperStore dispensary and adding new entertainment features. The Company is increasing the dispensary floor space and expanding the dispensary to a total of 23,000 square feet inside the 112,000 Planet 13 Cannabis Entertainment Complex. The expanded dispensary is expected to significantly reduce customer wait times once it comes online, currently expected to be completed before the end of Q3 2021. The expansion will add 40 additional point-of-sale terminals and an 80-foot video wall. The expansion capital expenditures are anticipated to cost between \$1.5 to \$2.5 million.

The Company cautions that current global uncertainty with respect to the spread of the COVID-19 virus (the “coronavirus”) and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remain unknown, the rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company.

The Company currently operates one licensed indoor grow facility housed in a 15,000 square feet industrial building in Las Vegas (Clark County) with a perpetual harvest cycle and the capacity to produce approximately 2,100 lbs/year (approximately 950 kg/year) of finished product. The significant increase in demand for product, as evidenced by the revenue growth during fiscal 2019, caused the Company to have to purchase products from other licensed producers in Nevada to meet customer demand. The Company’s original intention was to remain a fully integrated operator and was in the process of embarking on the expansion of its production capabilities through its cultivation license (both medical and recreational cultivation licenses) on 80 acres of owned land, with access to both municipal water and power, near the town of Beatty (in Nye County, Nevada). The total potential expansion capacity of the Beatty site is approximately 2,300,000 square feet of greenhouse capacity. The current state of the wholesale cannabis market in the state of Nevada has caused the Company to re-evaluate the timing of its planned build out of the Beatty facility. The Company has been able to enter into a series of cannabis supply agreements with licensed producers of quality cannabis product in the state of Nevada that is expected to enable the Company to ensure that it has sufficient inventory on hand to meet the on-going demand at the Planet 13 Superstore. The Company intends to continue to progress with the planning of the phase 1 buildout of the Beatty site, which, subject to final inspections, was approved for up to 600,000 square feet of cultivation facility expansion by the State of Nevada on September 18, 2018, such that it would be able to aggressively expand its production capacity should there be material changes to the quality and quantity of cannabis and related products that are currently available in the wholesale market. On July 17, 2020, the Company announced that it had entered into an asset purchase agreement pursuant to which it acquired cannabis inventory, equipment and tenant improvements and, subject to regulatory approval at the time of the announcement, would acquire the Nevada cannabis license at a 45,000 square foot indoor cultivation and production facility in Las Vegas from West Coast Development Nevada, LLC. The following table summarizes the allocation of consideration exchanged to the estimated fair value of tangible and identifiable intangible assets acquired assumed:



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Consideration paid:	
Cash	\$ 1,656,667
Issuance of 1,374,833 common shares	2,918,277
Transaction costs	<u>50,000</u>
	<u>\$ 4,624,944</u>

  

Fair value of net assets acquired:	
Inventory	\$ 1,306,280
Biological assets	326,592
Fixed assets	<u>\$ 2,282,274</u>
Intangible asset license	<u>\$ 709,798</u>

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The Company intends to utilize the cultivation facility to expand its premium Medizin flow line and increase its vertical integration in the flower category in the Superstore. The Company regularly sells out of its Medizin flower after each harvest reaches the shelves of the Superstore. Concurrent with the signing of the Asset Purchase Agreement, Rx Land, LLC (“RX Land”), an entity owned by Planet 13’s Co-CEOs, separately acquired the Facility for \$3.3 million. On the transfer of the licence to Planet 13, which occurred in November 2020, the Company entered into a lease agreement with RX Land for the Facility (the “Lease Transaction”). The Lease Transaction constituted a related party transaction under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“MI 61-101”), but is otherwise exempt from the formal valuation and minority approval requirements of MI 61-101. The Lease Transaction was approved by the independent directors of the Company.

The Company intends to continue to purchase finished product from other third-party licensed producers to complement its own high quality Medizin and Company branded products in order to maintain product variety and to ensure that it has an adequate supply of product on hand to meet anticipated demand.

On May 20, 2020, the Company closed on its acquisition of Newtonian Principles, Inc. resulting in the Company acquiring a California cannabis sales license held by Newtonian Principles, Inc and a 30-year lease for a dispensary in Santa Ana, California. The acquisition was accounted for as an asset purchase acquisition as Newtonian Principles, Inc. was deemed to not be a business under IFRS 3.

The following table summarizes the allocation of consideration exchanged to the estimated fair value of identifiable intangible assets acquired assumed:



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Consideration paid:	
Cash	\$ 1,000,000
Issuance of 3,940,932 Class A shares (Note 14)	4,453,831
Transaction costs	<u>153,733</u>
	<u>\$ 5,607,564</u>
Fair value of net assets acquired:	
Right of use asset	4,395,037
Right of use liability	<u>(4,395,037)</u>
Intangible asset license	<u>\$ 5,607,564</u>

The license will be amortized over the remaining useful life of the Company's interest in the ROU assets of the property where the license is located.

During the year ended December 31, 2019, the Company completed its Phase II expansion of the SuperStore, adjacent to the famed Las Vegas Strip. The coffee shop and bistro opened to the public in October 2019 and have added to the unique customer experience that has already made the Planet 13 Superstore the number one rated dispensary in Nevada. (<https://www.leafy.com/news/strains-products/best-in-state-2018-nevada-cannabis>). The bistro and event space are dedicated to capturing revenue from non-cannabis consumers and driving cross-over revenue from cannabis customers as well as increasing visitor traffic to the Superstore complex and is only the first of several planned expansions for the 112,000 square foot site. The combined footprint of the coffee shop and bistro is 4,500 square feet and can seat between 130 and 150 patrons under normal operating protocols. The coffee shop and bistro were shut down during the months of April-June due to COVID-19 operating restrictions on restaurant establishments. The Company utilized the shutdown to rebrand the restaurant Trece and converted it into a Mexican themed establishment. Since re-opening in July, customer numbers have increased commensurate with the number of daily customer visits to the Superstore. The Company is continuing to evaluate the balance of the Phase II build-out of other related, and ancillary activities at the Planet 13 Superstore location, including the build-out of a planned premium retail and merchandise store, along with other potential third party uses of additional portions of the as yet to be built out floor space at the Superstore complex.

The Company is working with Nevada State CCB and regulators to provide information regarding the safety and feasibility of consumption lounges. Upon Nevada State authorizing lounges in Nevada, the Company is well-positioned, operationally and by virtue of the Superstore location, to apply for a lounge license(s).

On November 1, 2019, the Company completed the construction of a 14,000 sq. ft. production facility (the "**Production Facility**"), co-located within the Planet 13 Superstore. The Production Facility offers customers and visitors to the Planet 13 Superstore entertainment complex an immersive experience, consisting of 115 feet of windows where visitors can watch and learn what goes into the creation of individual products. Interactive kiosks are also available near the production viewing area to teach customers what goes into making their favorite products and offers Planet 13 a unique and powerful branding opportunity. The Production Facility enables the Company to meet the rapidly growing demand for its TRENDI concentrate and vape lines, which it launched in November. It also enables the Company to address the overwhelming demand for its Medizin line and to launch additional brands and product lines. The highly automated Production Facility utilizes robotics to lower costs and will be capable of processing 600 lbs of plant biomass per day once in full production, a throughput increase of approximately 1,300% from the Company's former production facility. The expansion has allowed the Company to create new brands and product lines and expand the existing Leaf & Vine,



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TRENDI and its premium Medizin branded product lines (which includes disposable and re-usable vape pens, oils, concentrates and other paraphernalia) and the recently launched HaHa Gummies, Dreamland Chocolate and HaHa Beverages brands, both for the Planet 13 Superstore and for the wholesale market. During the month of February 2020, the Company's in-house brands – HaHa Gummies, Dreamland Chocolates, TRENDI, Leaf & Vine and Medizin vape products set a record ~\$1.0 million in combined revenue in the month of February. Prior to the COVID shutdown on March 18, 2020 the Company had begun selling its house brands on the wholesale market in Nevada and had its products in 7 local dispensaries. The expansion of the Company's wholesale initiatives were put on hold during the COVID-19 shutdown, however the Company continued to run its production facility, building inventory to meet anticipated demand from wholesale sales as well as to ensure adequate supply of product to meet the needs of its delivery, curb side and limited instore retail customers. As COVID-19 restrictions were eased and dispensaries were able to reopen the Company ramped up its push into the wholesale market and now has its in-house branded products in 51 dispensaries throughout the state. The wholesale sales combined with the sale of our inhouse branded product in the Superstore have led many products to routinely on Headset's top 10 SKUs sold in Nevada. In the concentrate category, TRENDI regularly takes multiple top-5 spots and HaHa Gummies has also proven to be a hit with multiple top-10 spots.

The Company applied for six additional licenses in the State of Nevada but was unsuccessful in obtaining any additional licenses when the State of Nevada awarded licenses on December 5, 2018. The Company, along with other industry participants who were also unsuccessful in their applications for new licenses, launched a lawsuit against the state seeking to overturn the licensing process. On August 10, 2020, the Company announced that it had agreed to a settlement of its lawsuit and as part of the settlement received one provisional adult-use dispensary license in unincorporated Clark County, Nevada. The license has been used to re-open Planet 13's former dispensary located at 4850 Sunset Road in Las Vegas that was closed on October 30, 2018 when the Company transferred the license from that location to the Superstore. On November 20, 2020, the Company announced the store re-opening and began sales to customers on receipt of a Clark County business license and final approval to open by the CCB.

As of the date of this MD&A, although the Company holds the California License and the Santa Ana Permit, the Company conducts no operations in the State of California. The Company will commence retail sales operations at the Santa Ana Premises upon completion of its planned facility build-out and expansion within the Santa Ana Premise. Until such time, the Company intends to continue to hold the California License, the Santa Ana Permit, and the Santa Ana Regulatory Phase 1 distribution permit, and submit applications for renewals of such license and permit as required. The Company has engaged a design team and is proceeding with a construction schedule. The construction budget for the 33,001 square foot adult-use retail facility at the Santa Ana Premise is \$7,500,000-\$8,500,000, with approximately 6% of this budget allocated to the design phase. Although there have been minor delays due to temporary staffing shutdowns at the City of Santa Ana related primarily to COVID-19, and the City of Santa Ana not allowing in-person plan submissions, plan review is ongoing with the City of Santa Ana, and based on this timeline, the project is estimated to be completed by the end of Q2 2021. While the Company does not anticipate further delays to this schedule, due to the ongoing COVID-19 pandemic, there may be further delays at various stages of the construction process, including during permitting or during the construction phase of the project.

#### Common shares issued on warrant exercise

During the year ended December 31, 2020 the Company issued 17,532,271 Common Shares to warrant holders who exercised 17,532,271 warrants resulting in cash proceeds of \$32,653,449 (CAD\$43,079,023). Details as follows:



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<b>Date</b>	<b>Number of warrants exercised</b>	<b>CAD\$ Exercise price</b>	<b>CAD\$ Share price</b>
07-Jan-20	63,601	\$0.80	\$2.36
08-Jan-20	25,000	\$1.40	\$2.02
16-Jan-20	115,000	\$1.40	\$2.37
29-Jan-20	250	\$1.40	\$2.13
30-Jan-20	250	\$1.40	\$2.03
07-Feb-20	115,000	\$1.40	\$2.03
13-Feb-20	25,000	\$1.40	\$2.00
25-Feb-20	12,500	\$1.40	\$2.30
27-Feb-20	162,500	\$1.40	\$2.05
28-Feb-20	25,000	\$1.40	\$2.18
03-Mar-20	128,125	\$1.40	\$2.14
05-Mar-20	81,250	\$1.40	\$2.09
10-Mar-20	187,500	\$1.40	\$1.92
12-Mar-20	16,250	\$1.40	\$1.50
13-Mar-20	7,500	\$1.40	\$1.47
27-Apr-20	100,000	\$1.40	\$1.79
30-Apr-20	156,250	\$1.40	\$1.61
04-May-20	150,000	\$1.40	\$1.58
05-May-20	100,000	\$1.40	\$1.57
06-May-20	31,250	\$1.40	\$1.55
08-May-20	275,000	\$1.40	\$1.55
13-May-20	5,625	\$1.40	\$1.47
14-May-20	15,625	\$1.40	\$1.50
21-May-20	3,750	\$1.40	\$1.69
22-May-20	524,450	\$1.40	\$1.74
25-May-20	125,000	\$1.40	\$1.73
26-May-20	18,750	\$1.40	\$1.75
27-May-20	295,900	\$1.40	\$1.74
28-May-20	654,100	\$1.40	\$1.75
29-May-20	25,000	\$1.40	\$1.74
01-Jun-20	203,300	\$1.40	\$1.70
03-Jun-20	75,000	\$1.40	\$2.15
04-Jun-20	1,754,600	\$1.40	\$2.18
05-Jun-20	26,250	\$1.40	\$2.26
08-Jun-20	338,750	\$1.40	\$2.29
09-Jun-20	254,300	\$1.40	\$2.45
10-Jun-20	436,250	\$1.40	\$2.29
11-Jun-20	2,603,712	\$1.40	\$2.25
20-Jul-20	500	\$2.85	\$2.94
22-Jul-20	10,000	\$2.85	\$3.68
24-Jul-20	9,300	\$2.85	\$3.40
27-Jul-20	8,000	\$2.85	\$3.49
29-Jul-20	92,400	\$2.85	\$3.38
30-Jul-20	5,000	\$2.85	\$3.56
30-Jul-20	200,000	\$3.00	\$3.56
05-Aug-20	94,669	\$3.00	\$3.58





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06-Aug-20	554,400	\$2.85	\$3.56
11-Aug-20	5,000	\$2.85	\$3.68
12-Aug-20	93,300	\$2.85	\$4.17
12-Aug-20	20,000	\$3.75	\$4.17
14-Aug-20	58,450	\$2.85	\$4.58
14-Aug-20	32,600	\$3.75	\$4.58
17-Aug-20	13,250	\$2.85	\$5.28
17-Aug-20	33,000	\$3.00	\$5.28
17-Aug-20	123,000	\$3.75	\$5.28
18-Aug-20	309,800	\$2.85	\$5.06
18-Aug-20	382,000	\$3.75	\$5.06
19-Aug-20	374,000	\$3.75	\$5.06
20-Aug-20	17,800	\$2.85	\$4.23
25-Aug-20	238,300	\$2.85	\$4.82
26-Aug-20	186,979	\$2.85	\$4.66
27-Aug-20	500	\$3.75	\$4.34
28-Aug-20	29,400	\$2.85	\$4.40
28-Aug-20	6,000	\$3.75	\$4.40
03-Sep-20	15,000	\$2.85	\$4.48
04-Sep-20	5,600	\$2.85	\$4.31
08-Sep-20	26,900	\$2.85	\$4.15
17-Sep-20	157,232	\$2.15	\$4.07
23-Sep-20	80,400	\$2.85	\$4.12
13-Oct-20	1,700	\$2.85	\$4.56
14-Oct-20	3,700	\$2.85	\$4.78
16-Oct-20	74,900	\$3.75	\$5.10
19-Oct-20	98,223	\$3.00	\$4.94
19-Oct-20	118,100	\$3.75	\$4.94
21-Oct-20	98,223	\$3.00	\$4.47
23-Oct-20	20,000	\$3.75	\$4.72
27-Oct-20	1,800	\$2.85	\$4.47
09-Nov-20	11,600	\$2.85	\$4.96
16-Nov-20	105,400	\$3.75	\$4.76
18-Nov-20	50,590	\$3.75	\$4.98
20-Nov-20	4,200	\$3.75	\$4.93
23-Nov-20	37,900	\$3.75	\$5.13
25-Nov-20	686,400	\$3.75	\$5.83
26-Nov-20	186,645	\$3.70	\$5.69
26-Nov-20	329,000	\$3.75	\$5.69
27-Nov-20	123,300	\$3.75	\$5.81
30-Nov-20	11,185	\$3.75	\$6.50
01-Dec-20	24,900	\$2.85	\$6.19
01-Dec-20	34,800	\$3.75	\$6.19
02-Dec-20	100,000	\$2.15	\$6.41
02-Dec-20	26,100	\$2.85	\$6.41
02-Dec-20	256,800	\$3.75	\$6.41
03-Dec-20	64,308	\$2.15	\$6.67
03-Dec-20	3,700	\$2.85	\$6.67
03-Dec-20	186,645	\$3.70	\$6.67



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03-Dec-20	149,915	\$3.75	\$6.67
03-Dec-20	200,962	\$4.30	\$6.67
03-Dec-20	50,000	\$4.30	\$6.68
04-Dec-20	7,600	\$2.85	\$7.42
04-Dec-20	35,500	\$3.75	\$7.42
07-Dec-20	2,700	\$2.85	\$7.74
07-Dec-20	132,650	\$3.75	\$7.74
07-Dec-20	135,800	\$5.00	\$7.74
08-Dec-20	91,450	\$2.85	\$7.49
08-Dec-20	124,250	\$3.75	\$7.49
08-Dec-20	239,076	\$5.00	\$7.49
08-Dec-20	56,850	\$5.80	\$7.49
09-Dec-20	51,650	\$2.85	\$7.26
09-Dec-20	160,885	\$3.75	\$7.26
09-Dec-20	109,950	\$5.00	\$7.26
09-Dec-20	43,250	\$5.80	\$7.26
10-Dec-20	50,000	\$2.85	\$7.43
10-Dec-20	26,800	\$3.75	\$7.43
10-Dec-20	11,600	\$5.00	\$7.43
10-Dec-20	89,950	\$5.00	\$7.43
14-Dec-20	3,000	\$3.75	\$7.00
14-Dec-20	237,700	\$5.00	\$7.00
15-Dec-20	13,800	\$3.75	\$6.75
15-Dec-20	38,824	\$5.00	\$6.75
16-Dec-20	4,000	\$3.75	\$7.56
17-Dec-20	5,000	\$5.00	\$7.49
18-Dec-20	48,400	\$3.75	\$7.35
18-Dec-20	6,876	\$5.00	\$7.35
22-Dec-20	400	\$2.85	\$7.91
22-Dec-20	7,000	\$5.00	\$7.91
23-Dec-20	17,500	\$2.85	\$7.74
23-Dec-20	95,700	\$5.00	\$7.74
24-Dec-20	26,000	\$2.85	\$7.54
24-Dec-20	35,100	\$3.75	\$7.54
24-Dec-20	52,500	\$5.00	\$7.54
29-Dec-20	7,433	\$2.85	\$7.01
29-Dec-20	33,739	\$3.75	\$7.01
29-Dec-20	3,635	\$5.00	\$7.01
30-Dec-20	55,700	\$3.75	\$7.22
30-Dec-20	11,739	\$5.00	\$7.22
31-Dec-20	76,900	\$3.75	\$7.09

**Total number of warrants exercised** 17,532,271

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Common shares issued on RSU exercises

During the year ended December 31, 2020, the Company issued 2,685,344 Common Shares to restricted share units (“RSUs”) holders who exercised 2,685,344 RSUs. The Company also cancelled 6,666 RSUs that had not yet vested that



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were held by an employee who ceased to work for the Company. The Company did not receive any cash proceeds on the exercise of the RSUs. The RSU's are a form of compensation issued to employees, officers, directors and consultants of the Company. The Company also granted 50,518 RSUs to a consultant of the Company for past consulting services. The RSU vested on July 3, 2020. The Company also granted 50,000 RSUs to an employee of the Company on January 1, 2020. The RSUs granted vested 1/3 on the date of the grant and 1/3 on January 1, 2021 and 1/3 on January 1, 2022. The Company recognizes compensation expense on a quarterly basis, based on the vesting schedule of the RSUs that have been granted. During the year ended December 31, 2020, the Company recognized share-based compensation expense in the amount of \$2,456,018 on the vesting of RSUs during the year ended December 31, 2020.

#### Common shares issued on the exercise of options

During the year ended December 31, 2020, the Company issued Common Shares to option holders who exercised 333,001 common share purchase options and realized cash proceeds in the amount of \$217,990 (CAD\$290,984). The options had the following strike prices:

<u>Date</u>	<u>Number of options exercised</u>	<u>CAD\$ Exercise price</u>	<u>CAD\$ Share price</u>
17-Jan-20	75,000	\$0.80	\$2.32
17-Jan-20	33,334	\$1.55	\$2.32
03-Jul-20	8,333	\$0.75	\$2.04
03-Jul-20	116,334	\$0.80	\$2.04
09-Oct-20	50,000	\$0.80	\$4.55
14-Oct-20	50,000	\$0.80	\$4.78
<b>Total</b>	<b>333,001</b>		

#### Common and Class A shares issued on acquisitions

On May 20, 2020, the Company issued 3,940,932 Class A restricted shares on the acquisition of Newtonian Principles Inc. The shares were valued at \$4,453,832 (CAD\$6,187,263, CAD\$1.57 per share based on the closing price of the Company's shares as listed on the Canadian Securities Exchange on May 20, 2020.). The shares were converted by the holders into Common shares in November 2020.

On July 17, 2020, the Company issued 1,374,833 common shares on the acquisition of cultivation and production assets and cannabis licenses. The shares were valued at \$2,918,277 (CAD\$3,959,519, CAD\$2.88 per share based on the closing price of the Company's common shares as listed on the Canadian Securities Exchange on July 17, 2020)

#### Common shares issued on financings

On July 3, 2020, the Company completed a bought deal financing (the "**July Bought Deal Financing**") for aggregate gross proceeds of \$8,493,808 (CAD\$11,521,850) at a price of CAD\$2.15 per unit. The Company issued 5,359,000 units of the Company. Each unit was comprised of one common share in the capital of the Company and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of CAD\$2.85 per common share for a period of 24 months. As consideration for services rendered, the July Bought Deal Underwriters were paid a cash commission equal to 6.0% of the gross proceeds of the July Bought Deal Offering and issued compensation options equal to 6% of the number of Bought Deal Units sold (the "**July Bought Deal Compensation Options**"). Each July Bought Deal Compensation Option entitles the holder thereof to purchase one Common Share at an exercise price of CAD\$2.15 for a period of 24 months following the closing of the July Bought Deal Offering.



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On September 10, 2020 completed a bought deal financing (the “**September Bought Deal Financing**”) for aggregate gross proceeds of \$17,489,401 (CAD\$23,019,550) at a price of CAD\$3.70 per unit. The Company issued units of the Company. Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant of the Company. Each whole warrant shall entitle the holder thereof to acquire one common share at an exercise price per common share of CAD\$5.00 for a period of 24 months. As consideration for services rendered, the September Bought Deal Underwriters were paid a cash commission equal to 6.0% of the gross proceeds of the July Bought Deal Offering and issued compensation options equal to 6% of the number of Bought Deal Units sold (the “**September Bought Deal Compensation Options**”). Each September Bought Deal Compensation Option entitles the holder thereof to purchase one Common Share at an exercise price of CAD\$3.70 for a period of 24 months following the closing of the September Bought Deal Offering.

On November 5, 2020, the Company completed a bought deal financing (the “**November Bought Deal Financing**”) for aggregate gross proceeds of \$22,141,920 (CAD\$28,804,625). A total of 6,698,750 units of the Company were issued at a price of CAD\$4.30 per unit. Each unit consists of one common share in the capital of the Company and one-half (1/2) of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of CAD\$5.80 for a period of 24 months. As consideration for services rendered, the November Bought Deal Underwriters were paid a cash commission equal to 6.0% of the gross proceeds of the July Bought Deal Offering and issued compensation options equal to 6% of the number of Bought Deal Units sold (the “**November Bought Deal Compensation Options**”). Each November Bought Deal Compensation Option entitles the holder thereof to purchase one Common Share at an exercise price of CAD\$4.30 for a period of 24 months following the closing of the November Bought Deal Offering.

Use of Available Gross Proceeds	Estimated allocation of Proceeds CAD\$	Estimated allocation of Proceeds US\$ <sup>1</sup>	Actual allocation of Proceeds US\$
Share issuance costs paid in cash	\$ 4,818,351	\$ 3,660,589	\$ 3,660,589
Retail and integrated operation expansion (new locations)	58,527,674	44,464,540	-
<b>Total gross proceeds</b>	<b>\$ 63,346,025</b>	<b>\$ 48,125,129</b>	<b>\$ 3,660,589</b>

1 Based on the daily exchange rate for the United States dollar in terms of Canadian dollars, as quoted by the Bank of Canada on July 4, 2020 of US\$1.00 = \$1.3565, on September 10, 2020 of US\$1.00=\$1.3162, and on November 5, 2020 of \$US\$1.00=\$1.3009.

The balance of funds allocated to retail and integrated operation expansion includes funds anticipated to be spent on the acquisition of operations and licenses and the build out of new retail locations in states where recreational cannabis is legal, and for retail acquisition and other growth opportunities that may arise over the next 12-18 months.

**SIGNIFICANT EVENTS AND TRANSACTIONS SUBSEQUENT TO THE PERIOD**

On February 2, 2021, the Company completed a bought deal financing (the “**February Bought Deal Financing**”) for aggregate gross proceeds of \$53,852,980 (CAD\$69,028,750). A total of 9,861,250 units of the Company were issued at a price of CAD\$7.00 per unit. Each unit consists of one common share in the capital of the Company and one-half (1/2) of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an



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exercise price of CAD\$9.00 for a period of 24 months from the closing of the financing. As consideration for services rendered, the February Bought Deal Underwriters were paid a cash commission equal to 6.0% of the gross proceeds of the July Bought Deal Offering and issued compensation options equal to 6% of the number of Bought Deal Units sold (the “**February Bought Deal Compensation Options**”). Each November Bought Deal Compensation Option entitles the holder thereof to purchase one Common Share at an exercise price of CAD\$7.00 for a period of 24 months following the closing of the November Bought Deal Offering.

On February 15, 2021 the State of Nevada began to further ease the COVID-19 restrictions that are in place, allowing indoor activity (shopping, restaurants, gyms, salons etc.) to open with increased capacity limits. Cannabis dispensaries remain subject to a 50% capacity limit while restaurants are allowed to increase their operating capacity to 35%. These changes led to an increase in customer traffic during the final two weeks of February 2021. The number of tourists visiting Las Vegas is also expected to increase and COVID -19 restrictions are further eased.

During the period from January 1, 2021 to April 4, 2021, the Company issued 2,934,250 common shares on the exercise of warrants during the period and realized cash proceeds of \$10,805,562(CAD\$13,705,149).

During the period January 1, 2021 to April 4, 2021, the Company issued 99,670 common shares on the exercise of options during the period and realized cash proceeds of \$72,337 (CAD\$92,237.)

During the period January 1, 2021 to April 4, 2021, the Company issued 852,154 common shares on the exercise of RSUs during the period. The Company did not receive any cash proceeds on the exercise.



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**RESULTS OF OPERATIONS**

<i>Expressed in USDS</i>	Three Months Ended Dec-31-2020	Three Months Ended Dec-31-2019	Percentage Change	Year Ended Dec-31-2020	Year Ended Dec-31-2019	Percentage Change
<b>Revenue</b>						
Revenues, net of discounts	20,139,944	16,540,324	21.8%	70,491,280	63,595,036	10.8%
Cost of Goods Sold	(12,670,805)	(7,098,908)	78.5%	(36,291,251)	(27,139,658)	33.7%
<b>Gross Profit, Before Biological Asset Adjustment</b>	<b>7,469,139</b>	<b>9,441,416</b>	(20.9%)	<b>34,200,029</b>	<b>36,455,378</b>	(6.2%)
<b>Gross Profit Margin %</b>	<b>37.1%</b>	<b>57.1%</b>		<b>48.5%</b>	<b>57.3%</b>	
Realized fair value amounts included in COGS	377,903	(695,361)	(154.3%)	(1,104,525)	(1,500,965)	(26.4%)
Unrealized fair value gain on growth of biological assets	1,019,007	344,281	196.0%	2,276,141	1,020,784	123.0%
<b>Gross profit</b>	<b>8,866,049</b>	<b>9,090,336</b>	(2.5%)	<b>35,371,645</b>	<b>35,975,197</b>	(1.7%)
<b>Gross Profit Margin %</b>	<b>44.0%</b>	<b>55.0%</b>		<b>50.2%</b>	<b>56.6%</b>	
<b>Expenses</b>						
General and Administrative	7,386,914	5,351,056	38.0%	24,667,172	20,269,839	21.7%
Sales and Marketing	621,464	1,730,301	(64.1%)	3,305,640	6,539,483	(49.5%)
Depreciation and Amortization	1,051,894	900,278	16.8%	4,155,741	2,845,464	46.0%
Share based payments	506,501	1,694,370	(70.1%)	2,512,568	4,822,787	(47.9%)
<b>Total Expenses</b>	<b>9,566,773</b>	<b>9,676,005</b>	(1.1%)	<b>34,641,121</b>	<b>34,477,573</b>	0.5%
<b>Income (Loss) From Operations</b>	<b>(700,724)</b>	<b>(585,669)</b>	19.6%	<b>730,524</b>	<b>1,497,624</b>	(51.2%)
<b>Other (Income) Expense:</b>						
Interest Expense, net	504,692	404,332	24.8%	1,796,641	1,306,876	37.5%
Realized Foreign Exchange gain (loss)	-	-	na	-	(1,141)	(100.0%)
Other expense (income)	33,355	(75,041)	(144.4%)	(216,849)	(350,775)	(38.2%)
<b>Total Other Expense (Income)</b>	<b>538,047</b>	<b>329,291</b>	63.4%	<b>1,579,792</b>	<b>954,960</b>	65.4%
<b>Income (loss) for the period before tax</b>	<b>(1,238,771)</b>	<b>(914,960)</b>	35.4%	<b>(849,268)</b>	<b>542,664</b>	(256.5%)
Provision for income tax (current and deferred)	1,666,546	1,662,213	0.3%	7,092,257	7,200,997	(1.5%)
<b>Income (Loss) for the period</b>	<b>(2,905,317)</b>	<b>(2,577,173)</b>	12.7%	<b>(7,941,525)</b>	<b>(6,658,333)</b>	19.3%
<b>Other Comprehensive Income (Loss)</b>						
<i>Items that may be reclassified subsequently to profit/loss</i>						
Foreign exchange translation adjustment	333,528	(24,607)		128,585	195,213	
<b>Net Comprehensive Income (Loss) for the period</b>	<b>(2,571,789)</b>	<b>(2,601,780)</b>		<b>(7,812,940)</b>	<b>(6,463,120)</b>	
<b>Income (Loss) per share for the period</b>						
Basic and fully diluted loss per share	<b>(\$0.02)</b>	<b>(\$0.02)</b>		<b>(\$0.05)</b>	<b>(\$0.05)</b>	
<b>Weighted Average Number of Shares Outstanding</b>						
Basic and fully diluted	175,660,734	135,888,982		151,825,439	134,074,476	

The Company experienced a 21.8% increase in revenue during the three months ended December 31, 2020 when compared to the three months ended December 31, 2019. The increase is directly attributable to an increase in average spend per customer at the Company's Superstore dispensary as well as the addition of curb-side pickup and home delivery transactions during the period, the increase in wholesale transactions during the period and the re-opening of the Medizin Dispensary in November 2020. Curb-side pick-up was not available during the prior year period and home delivery volumes represented an immaterial amount of the Company's revenue during the prior period. The Medizin dispensary was not open during 2019 and the Company had limited wholesale business during the prior year period. The large increase in both home delivery and curb-side pick-up during the period was the result of the impact of the COVID-19 pandemic and the change in consumer buying habits that it has caused. While the COVID-19 shutdown impacted the Company's tourist customer base due to the partial shutdown of hotels and resorts in the state of Nevada during the final two months of Q4 2020, the increase in average spend per customer during the period more than made up for the reduction in customer traffic when compared to the prior year period.



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The Company experienced a 10.8% increase in revenue during the year ended December 31, 2020 when compared to the year ended December 31, 2019. The increase is directly attributable to an increase in average spend per customer at the Company's Superstore dispensary as well as the addition of curb-side pickup and home delivery transactions during the period offset by the impact of COVID-19 on revenue and customer traffic during Q2 2020 when a full lock-down was in place in Nevada and the Company was only able to offer on-line ordering/home delivery followed by a partial reopening towards the end of Q2 2020. Curb-side pick-up was not available during the prior year period and home delivery volumes represented an immaterial amount of the Company's revenue during the year ended December 31, 2019. The large increase in both home delivery and curb-side pick-up during the period was the result of the impact of the COVID-19 pandemic and the change in consumer buying habits that it has caused. While the COVID-19 shutdown impacted the Company's tourist customer base due to the full lock-down and partial reopening of hotels and resorts in the state of Nevada during the year ended December 31, 2020, the increase in average spend per customer during the period, coupled with the addition of increased home delivery volume and curb side pick-up volumes and revenue from the Company's wholesale business and recently opened Medizin dispensary in November 2020 more than made up for the reduction in customer traffic when compared to the year ended December 31, 2019.

Details of gross revenue, excluding loyalty and discounts, by product category are as follows:

	Three Months Ended 31-Dec-20	Three Months Ended 31-Dec-19	Percentage Change	Year Ended 31-Dec-20	Year Ended 31-Dec-19	Percentage Change
Flower	\$12,352,536	\$7,532,771	64.0%	\$42,339,966	\$28,210,899	50.1%
Concentrates	4,662,773	4,808,703	(3.0%)	16,788,521	20,521,076	(18.2%)
Edibles	3,198,326	4,275,414	(25.2%)	12,077,932	14,534,217	(16.9%)
Topicals and other revenue	1,163,730	1,310,246	(11.2%)	4,178,344	5,352,847	(21.9%)
Wholesale	840,930	-	NA	1,879,855	-	NA
<b>Total Revenue</b>	<b>22,218,295</b>	<b>17,927,134</b>	<b>23.9%</b>	<b>77,264,618</b>	<b>68,619,039</b>	<b>12.6%</b>
Discounts/Loyalty Program Accrual	(2,078,351)	(1,386,810)	49.9%	(6,773,338)	(5,024,003)	34.8%
<b>Net Revenue</b>	<b>\$20,139,944</b>	<b>\$16,540,324</b>	<b>21.8%</b>	<b>\$70,491,280</b>	<b>\$63,595,036</b>	<b>10.8%</b>

Gross Profit margin before the impact of biological asset adjustments decreased to 37.1% for the three months ended December 31, 2020 (48.5% for the year ended December 31, 2020), when compared to the Gross Profit margin of 57.1% experienced during the three months ended December 31, 2019 (57.3% for the year ended December 31, 2019). Gross profit margin for the three months and year ended December 31, 2020 was affected by the revenue mix and the addition of lower margin home delivery and wholesale revenue during the period in question. Wholesale revenue has lower gross margin profitability while the home delivery and curb side pick-up revenue is heavily skewed to the local Nevada customer that receives a set discount off of the listed price for being a Nevada state resident. The costs of internal cultivation have continued to trend down as the Company continues to improve its yields and cultivation efficiency. In addition, margin enhancement through the creation of internally generated brands, such as TRENDI, Leaf & Vine, HaHa Gummies, Dreamland Chocolate, HaHa Beverages and Medizin, continue to have a positive impact on gross margins during the three months and year ended December 31, 2020 helping offset the lower margins received on the sale of wholesale product and the sales to local customers. The Company anticipates that margins will trend upward when COVID-19 operating restrictions are eased, and tourist customers return to Las Vegas and the Superstore in greater numbers.



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The net realized fair value amounts included in the cost of goods sold and the unrealized gain on the growth of biological assets during the three months ended December 31, 2020, was \$1,396,910 net (\$1,171,616 for the year) compared to (\$351,080) for the three months ended December 31, 2019 (\$480,181) for the year ended December 31, 2019). The Company's premium cultivation facilities were operating near capacity during the three months and year ended December 31, 2020, as well as during the three months and year ended December 31, 2019. The amount of cannabis grown during each period was similar, the price per gram was also similar. The yield for the three months and year ended December 31, 2020, was 79 grams/plant while the yield for the year ended December 31, 2019, was 140 grams per plant. The yield per plant for the year ended December 31, 2020, was negatively impacted by the Company's acquisition of the WCDN cultivation facility and the WCDN strains thereby acquired. Several of the acquired WCDN strains genetically yield a lesser number of grams per plant than the Company's Medizin strains. For the year ended December 31, 2020, the average yield of the Company's Medizin strains equaled 142 grams per plant whereas the acquired WCDN strains average yield equaled 36 grams per plant. The Company intends to replace a portion of the WCDN strains at the WCDN cultivation facility with higher yielding Medizin strains as well as working to increase the yield of the retained WCDN strains through improved cultivation techniques. Management believes that aggregate yields for the balance of 2021 will continue to show improvement (yields for the three months ended December 31, 2019 were approximately 140 grams per plant). The amount of cannabis harvested in each of the three months and year ended December 31, 2020 and 2019 was similar and resulted in a consistent level of biological assets being transferred to inventory and sold during each year. The Company also added an additional 25,000 square feet of cultivation as part of the WCDN asset acquisition that was announced on July 17, 2020 and formally closed in November 2020 will enhance the Company's gross margin in 2021 as it works to integrate this cultivation facility into its overall vertical integration strategy.

Overall gross margin was \$8,866,049 in the three months ended December 31, 2020 (\$35,371,645 for the year ended December 31, 2020), compared to \$9,090,336 in the three months ended December 31, 2019 (\$35,975,197 for the year ended December 30, 2019), a decrease of (2.5%) for the three months and a decrease of (1.7%) for the year ended December 31, 2020.

General and Administrative expenses (which excludes non-cash share-based compensation expenses, sales and marketing expenses and depreciation and amortization expenses) increased by 38.0% in the three months and 21.7% in the year ended December 31, 2020 when compared to the three months and year ended December 31, 2019. The large increase in General and Administrative expenses incurred during the three months and year ended December 31, 2020 was a result of increased costs incurred as a result of COVID-19 operating procedures and the expansion of the Company's wholesale and delivery sales channels.





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A detailed breakdown of general and administrative expenses is as follows:

	For the three months ended		Percentage Change	For the year ended		Percentage Change
	December 30,			December 30,		
	2020	2019		2020	2019	
Salaries and wages	\$ 3,064,806	\$ 1,903,291	61.0%	\$ 9,611,047	\$ 6,941,111	38.5%
Executive compensation	303,537	286,644	5.9%	1,204,925	874,598	37.8%
Licenses and permits	660,488	485,258	36.1%	1,957,183	1,704,755	14.8%
Payroll taxes and benefits	600,426	396,725	51.3%	1,971,215	1,531,261	28.7%
Supplies and office expenses	228,027	229,538	(0.7%)	960,456	1,184,401	(18.9%)
Subcontractors	513,422	339,026	51.4%	1,569,921	1,272,414	23.4%
Professional fees (legal, audit and other)	327,488	469,955	(30.3%)	2,944,706	2,723,555	8.1%
Miscellaneous general and administrative expenses	1,688,720	1,240,619	36.1%	4,447,719	4,037,744	10.2%
	<u>\$ 7,386,914</u>	<u>\$ 5,351,056</u>	<u>38.0%</u>	<u>\$ 24,667,172</u>	<u>\$ 20,269,839</u>	<u>21.7%</u>

Sales and marketing expenses decreased by 64.1% during the three months and 49.5% during the year ended December 31, 2020 when compared to the three months and year ended December 31, 2019. The large decrease was a result of the COVID -19 shutdown of the Las Vegas strip resulting in the curtailment of the Company's sales and marketing activities geared towards the tourist customer and a switch to less costly sales and marketing activity that focused on the local customer when compared to the prior year periods. The Company continues to refine its marketing efforts to optimize marketing spend on initiatives that drive increased customer traffic to the Superstore complex, in light of the phased reopening of the Las Vegas Strip and the Superstore since June 1, 2020.

Depreciation and Amortization increased by \$151,616 or 16.8% for the three months ended December 31, 2020 and by \$1,310,277 or 46.0% for the year ended December 31, 2020, when compared to the prior year periods as a result of the Company completing the buildout of Phase II of the Superstore entertainment complex during Q4 2019 and the recording depreciation on the Phase II assets. In addition, the Company also began recording depreciation on the recently acquired WCDN cultivation facility during the three months and year ended December 31, 2020. Please refer to Notes 8 and 10 in the Company's annual audited consolidated financial statements for the year ended December 31, 2020, for additional detail.

Non-cash, share based payments of \$506,501 were recognized during the three months ended December 31, 2020 (\$2,512,568 for the year ended December 31, 2020), decreased from the \$1,694,370 incurred in the three months ended December 31, 2019, (decreased from the \$4,822,787 for the year ended December 31, 2019). The decrease can be attributable to the vesting schedule for both RSUs and incentive stock options granted on June 11, 2018 and on June 30, 2019 that vested 1/3 on January 1, 2020 and 1/3 on the first and second anniversary of the grant date. The Company also granted 50,000 RSUs to an employee on January 1, 2020 that vest 1/3 on the grant date and 1/3 on the first and second anniversary of the grant date. The Company also granted 100,000 options to employees on January 7, 2019, and 22,500 on June 30, 2019, that vest 1/3 on the grant date and 1/3 on the first and second anniversaries of the grant date. The Company granted 100,000 options to a consultant of the Company on July 4, 2019, that vested 1/4 on the grant date and 1/4 every three months from the grant date to April 4, 2020 and granted 50,518 RSUs to a consultant on July 3, 2020 for services rendered that vested immediately. The expense represents the recognition over time of the fair market value of incentive options and RSUs that were granted to employees, consultants, officers and directors of the Company. These amounts are non-cash and the expense is recognized in accordance with the vesting schedule of the underlying stock options and RSUs. (See Note 14 in the Company's audited consolidated financial statements for the year ended December 31, 2020, for additional details on the assumptions used to calculate fair value as well as information regarding the vesting of the various components of the non-cash share-based compensation).

Interest expenses recorded in the three months and year ended December 31, 2020 and 2019, relates to the prorated portion of lease payments split between principal repayments and interest expense from lease liabilities that were



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recognized with the adoption of IFRS 16 on January 1, 2019. The balance of long-term debt as at December 31, 2020 was \$884,000 compared to \$884,000 as at December 31, 2019 and is not subject to interest.

The Company conducts its operations in both the United States and Canada holding financial assets in both currencies and incurs expenses in both USD and CAD. On December 31, 2019, the value of the USD was USD\$1.00=CAD\$1.2998 compared to the value of the USD of USD\$1.00=CAD\$1.2732 as at December 31, 2020, resulting in the Company realizing a foreign exchange translation gain of \$333,528 for the three months and a gain of \$128,585 for the year ended December 31, 2020. It is the Company's policy to not hedge its CAD\$ or USD\$ exposure.

The income tax provision for the three months ended December 31, 2020, was \$1,666,546 (\$7,092,257 for year ended December 31, 2020) compared to \$1,662,213 for the three months ended December 31, 2019 (\$7,200,997 for the year ended December 31, 2019). The tax provision increased due to the increase in revenue and taxable profitability during the period. The Company is subject to US Federal tax legislation that denies the deduction of certain expenditures for tax purposes that would otherwise be available to non-cannabis-based businesses that results in the Company being subject to a higher overall tax rate on net income. Refer to Note 19 in the Company's audited annual financial statements for the year ended December 31, 2020, for additional details.

Overall net loss after tax for the three months ended December 31, 2020, was \$2,571,789 compared to a net loss of \$2,601,780 for the three months ended December 31, 2019. Overall net loss after tax for the year ended December 31, 2020, was \$7,812,940 compared to a net loss of \$6,463,120 for the year ended December 30, 2019.

**SEGMENTED DISCLOSURE**

The Company operates in a single reportable operating segment as a vertically integrated cannabis company with cultivation, production and distribution operations in the state of Nevada. The following tables present the results of the Company's cannabis operations in Nevada and its Corporate activities for the three months and year ended December 31, 2020 and 2019.



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	Three Months Ended Dec-31-2020			Three Months Ended Dec-31-2019		
	Nevada Cannabis Operations	Canadian Corporate Overhead	Consolidated Total	Nevada Cannabis Operations	Canadian Corporate Overhead	Consolidated Total
	<i>Expressed in USDS</i>					
<b>Revenues, net of discounts</b>	\$ 20,139,944	\$ -	\$ 20,139,944	\$ 16,540,324	\$ -	\$ 16,540,324
<b>Gross profit</b>	\$ 8,866,049	\$ -	\$ 8,866,049	\$ 9,090,336	\$ -	\$ 9,090,336
<b>Gross Profit Margin % after fair value asset adjustment</b>	<b>44.0%</b>	<b>na</b>	<b>44.0%</b>	<b>55.0%</b>	<b>na</b>	<b>55.0%</b>
<b>Expenses</b>						
General and Administrative	6,882,439	504,475	7,386,914	4,707,563	643,493	5,351,056
Sales and Marketing	621,464	-	621,464	1,730,301	-	1,730,301
Depreciation and Amortization	1,051,894	-	1,051,894	900,278	-	900,278
Share based payments	-	506,501	506,501	-	1,694,370	1,694,370
<b>Total Expenses</b>	\$ 8,555,797	\$ 1,010,976	\$ 9,566,773	\$ 7,338,142	\$ 2,337,863	\$ 9,676,005
<b>Income (Loss) From Operations</b>	\$ 310,252	(\$1,010,976)	(\$700,724)	\$ 1,752,194	(\$2,337,863)	(\$585,669)
<b>Total Other (Income) Expense</b>	\$ 538,047	\$ -	\$ 538,047	329,291	\$ -	\$ 329,291
<b>Income tax provision</b>	\$ 1,666,546	\$ -	\$ 1,666,546	\$ 1,662,213	\$ -	\$ 1,662,213
<b>Income (Loss) for the period after tax</b>	<b>(\$1,894,341)</b>	<b>(\$1,010,976)</b>	<b>(\$2,905,317)</b>	<b>(\$239,310)</b>	<b>(\$2,337,863)</b>	<b>(\$2,577,173)</b>
<b>Foreign currency translation adjustment gain (loss)</b>	\$ -	\$ 333,528	\$ 333,528	\$ -	(\$24,607)	(\$24,607)
<b>Net Comprehensive Income (Loss) for the period</b>	<b>(\$1,894,341)</b>	<b>(\$677,448)</b>	<b>(\$2,571,789)</b>	<b>(\$239,310)</b>	<b>(\$2,362,470)</b>	<b>(\$2,601,780)</b>

	Year Ended Dec-31-2020			Year Ended Dec-31-2019		
	Nevada Cannabis Operations	Canadian Corporate Overhead	Consolidated Total	Nevada Cannabis Operations	Canadian Corporate Overhead	Consolidated Total
	<i>Expressed in USDS</i>					
<b>Revenues, net of discounts</b>	\$ 70,491,280	\$ -	\$ 70,491,280	\$ 63,595,036	\$ -	\$ 63,595,036
<b>Gross profit</b>	\$ 35,371,645	\$ -	\$ 35,371,645	\$ 35,975,197	\$ -	\$ 35,975,197
<b>Gross Profit Margin % after fair value asset adjustment</b>	<b>50.2%</b>	<b>na</b>	<b>50.2%</b>	<b>56.6%</b>	<b>na</b>	<b>56.6%</b>
<b>Expenses</b>						
General and Administrative	21,434,299	3,232,873	24,667,172	17,204,501	3,065,338	20,269,839
Sales and Marketing	3,305,640	-	3,305,640	6,539,483	-	6,539,483
Depreciation and Amortization	4,155,741	-	4,155,741	2,845,464	-	2,845,464
Share based payments	-	2,512,568	2,512,568	-	4,822,787	4,822,787
<b>Total Expenses</b>	\$ 28,895,680	\$ 5,745,441	\$ 34,641,121	\$ 26,589,448	\$ 7,888,125	\$ 34,477,573
<b>Income (Loss) From Operations</b>	\$ 6,475,965	(\$5,745,441)	\$ 730,524	\$ 9,385,749	(\$7,888,125)	\$ 1,497,624
<b>Total Other Expense</b>	1,579,784	\$ 8	\$ 1,579,792	956,102	(\$1,142)	\$ 954,960
<b>Income tax provision</b>	\$ 7,092,257	\$ -	\$ 7,092,257	\$ 7,200,997	\$ -	\$ 7,200,997
<b>Income (Loss) for the year after tax</b>	<b>(\$2,196,076)</b>	<b>(\$5,745,449)</b>	<b>(\$7,941,525)</b>	<b>\$ 1,228,650</b>	<b>(\$7,886,983)</b>	<b>(\$6,658,333)</b>
<b>Foreign currency translation adjustment gain (loss)</b>	\$ -	\$ 128,585	\$ 128,585	\$ -	\$ 195,213	\$ 195,213
<b>Net Comprehensive Income (Loss) for the year</b>	<b>(\$2,196,076)</b>	<b>(\$5,616,864)</b>	<b>(\$7,812,940)</b>	<b>\$ 1,228,650</b>	<b>(\$7,691,770)</b>	<b>(\$6,463,120)</b>



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	Three Months Ended Dec-31-2020	Three Months Ended Dec-31-2020	Three Months Ended Dec-31-2019	Percentage Change	Year Ended Dec-31-2020	Year Ended Dec-31-2020	Year Ended Dec-31-2019	Percentage Change
<b>EBITDA</b>								
Profit (loss) before taxes	(227,795)	(1,238,771)	(914,960)	35.4%	4,896,181	(849,268)	542,664	(256.5%)
Add back:								
Biological asset adjustments	(1,396,910)	(1,396,910)	351,080	(497.9%)	(1,171,616)	(1,171,616)	480,181	(344.0%)
Non-cash share based payments	-	506,501	1,694,370	(70.1%)	-	2,512,568	4,822,787	(47.9%)
Depreciation and amortization	1,051,894	1,051,894	900,278	16.8%	4,155,741	4,155,741	2,845,464	46.0%
Depreciation included in COGS	517,177	517,177	157,026	229.4%	1,900,288	1,900,288	472,661	302.0%
ROU Interest included in COGS	325,718	325,718	35,524		783,318	783,318	121,257	
Interest and non-operating expense (income)	538,047	538,047	329,291	63.4%	1,579,784	1,579,792	954,960	65.4%
<b>EBITDA</b>	808,131	303,656	2,552,609	(88.1%)	12,143,696	8,910,823	10,239,974	(13.0%)
Margin	4.0%	1.5%	15.4%		17.2%	12.6%	16.1%	

**SUMMARY OF QUARTERLY RESULTS**

Three months ended	Dec-31-2020	Sep-30-2020	Jun-30-2020	Mar-31-2020	Dec-31-2019	Sep-30-2019	Jun-30-2019	Mar-31-2019
US\$								
Total revenue	20,139,944	22,797,338	10,760,996	16,793,002	16,540,324	16,696,932	16,521,717	13,836,063
Net (Loss)	(2,905,317)	360,949	(3,988,095)	(1,409,062)	(2,577,173)	(1,722,353)	(935,468)	(1,423,344)
Comprehensive Net (Loss)	(2,571,789)	208,636	(4,071,794)	(1,377,993)	(2,601,780)	(1,689,720)	(1,021,487)	(1,150,138)
Net (Loss) per share	(0.02)	-	(0.03)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)
Total assets	150,003,005	125,475,384	81,468,864	66,521,303	62,898,546	67,117,149	62,872,492	55,510,677
Total liabilities	29,300,698	39,294,574	30,538,325	24,729,360	21,603,954	25,979,599	22,279,348	17,656,059
Working capital	83,084,355	49,707,647	15,584,126	10,234,141	11,840,146	13,627,453	18,815,867	19,539,822
Dividends declared	-	-	-	-	-	-	-	-

Selected Annual Information	Dec-31-2020	Dec-31-2019	Dec-31-2018
US\$			
Total assets	\$150,003,005	\$62,898,546	\$44,945,306
Total liabilities	\$29,300,698	\$21,603,954	\$7,040,566
Net Loss for the period	(\$7,941,525)	(\$6,658,333)	(\$10,723,704)
Comprehensive Loss	(\$7,812,940)	(\$6,463,120)	(\$11,526,624)
Net Loss per share	(\$0.05)	(\$0.05)	(\$0.11)

In the State of Nevada the sale of recreational cannabis commenced on July 1, 2017. The Company began operations with the legalization of medical cannabis and began participating in the recreational cannabis market on July 1, 2017, when the recreational adult use market was legalized. Revenue has grown consistently quarter over quarter along with an increase in average daily customer and average ticket size during this period. Revenue and average daily traffic grew consistently from July 1, 2017, until October 29, 2018, when the Company closed its Medizin dispensary location in order to transfer its licences to the Superstore, which opened on November 1, 2018. The Company has continued to see increases in the number of average daily customers and average ticket size and has been able to adjust its product offering in order to meet customer demand and improve margins. The onset of the COVID-19 shutdown which began in Nevada on March 18, 2020 resulted in a reduction in the number of tourist customers visiting Las Vegas and therefore negatively impacted the number of customers and traffic to the store. The Company began offering online ordering/home delivery during the first 6 weeks of the COVID19 shutdown, expanded with curb side pickup as allowed by the state of Nevada and has begun offering instore purchases under strictly controlled circumstances (no more than 10 customers are allowed in the store at any given time as required under the current restrictions imposed by the State of Nevada as the state begins to reopen its economy.) On June 1, 2020, the State of Nevada moved to allow dispensaries to open at 50% of their fire rated occupancy capacity. Gross margin percentages have been



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negatively impacted by the COVID-19 shutdown. The months of July through October 2020 saw a return to pre-COVID-19 operating levels and a return to profitability and record revenues. A COVID-19 pause was reintroduced in the State of Nevada in November 2020 and lasted until the recent easing on February 15, 2021. While the state of Nevada has begun to reopen its economy, there is uncertainty as to the timing for, and number of, tourists that will begin to return to Las Vegas in meaningful numbers and potential risks that the State may reimpose more strict operating procedures or implement another lock-down due to the COVID-19 pandemic.

#### OUTSTANDING SHARES

As of April 4, 2021, the Company had 140,330,574 Common Shares and 55,232,940 Restricted Voting Shares issued and outstanding for a total of 195,563,514 shares outstanding. There were 184,168 options issued and outstanding of which all have fully vested. There were 9,700,341 warrants outstanding and 912,095 RSU's outstanding of which *nil* RSUs had fully vested as at the date of this MD&A.

#### FINANCIAL POSITION AND LIQUIDITY

As at December 31, 2020, the Company's financial instruments consist of cash, accounts payable and accrued liabilities, and sales tax receivables. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges.

As at December 31, 2020, the Company had working capital of \$83,084,355 compared to working capital of \$11,840,146 as at December 31, 2019.

The following table relates to the year ended December 31, 2020 and compares that to the year ended December 31, 2019.

	Year Ended Dec 31, 2020	Year Ended Dec 31, 2019
Cash flows provided by operating activities	(914,965)	5,542,044
Cash flows used in investing activities	(8,031,458)	(16,061,582)
Cash flows provided by financing activities	74,998,973	3,782,639

#### FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### a) Financial instrument classification and measurement

Financial instruments of the Company carried on the annual audited consolidated statement of financial position are carried at amortized cost with the exception of cash, which is carried at fair value. There are no significant differences between the carrying value of financial instruments and their estimated fair values as at December 31, 2020 or December 31, 2019, due to the immediate or short-term maturities of the financial instruments.

##### b) Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts payable and accrued expenses. At December 31, 2020, the carrying value of cash is fair value. Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Transaction costs are included in the amount initially recognized. Accounts payable and other liabilities, notes payable, and notes payable related parties have been classified as other financial liabilities



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**c) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. A portion of the Company's revenue utilizes third-party payment platforms. These platforms batch process several days' worth of activity before funds are remitted to the Company. A failure of such platforms, or the inability of the platform provider to remit funds in a timely manner to the Company could have a material impact on the Company's financial position. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties. Thus, the credit risk associated with other receivables is also considered to be negligible.

**d) Interest rate risk**

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is not exposed to significant interest rate risk.

**e) Currency risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company primarily operates in Canada and the United States and incurs certain expenditures and obtains financing in both Canadian and US dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the Company or subsidiary that holds the financial asset or liability. The Company's risk management policy is to review its exposure to non-US dollar forecast operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in US dollars and Canadian dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of foreign currency financial assets and liabilities in US dollars as at December 31, 2020, is as follows:

<b>US Dollar amounts of foreign currency assets and liabilities</b>		
	Assets	Liabilities
Canadian Dollars	\$21,617,313	\$57,407

Based on the financial instruments held as at December 31, 2020, the Company's other comprehensive income (loss) would have changed by \$1,557,815 had the US dollar shifted by 10% as a result of foreign exchange effect on translation of non-US dollar denominated financial instruments. As at December 31, 2020, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

**f) Liquidity risk**

Prudent liquidity risk management implies maintaining at all times sufficient cash and liquid investments to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations.

As at December 31, 2020, the Company had working capital of \$83,084,355 (December 31, 2019 - \$11,840,146) and anticipates that revenue from operations will provide sufficient funds to cover all the Company's operating expenditures for the next 12 months. The Company cautions that current global uncertainty with respect to the spread



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of the COVID-19 virus (the “coronavirus”) and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remain unknown, rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company.

Planned expansion of the Company’s cultivation facilities, its production and manufacturing facilities and its retail distribution facilities will require it to raise additional capital from outside sources. The Company will consider financing alternatives while contemplating minimal shareholder dilution.

The Company's potential sources of cash flow in the upcoming year will be from the proceeds of the sale of cannabis and cannabis related products and possible equity financings, loans, lease financing and entering into joint venture agreements, or any combination thereof.

#### **g) Pricing risk**

Price risk is the risk of variability in fair value due to movements in equity or market prices. See Note 5 in the Company’s audited annual consolidated financial statements for the year ended December 31, 2020 for the Company’s assessment of certain changes in the fair value assumption used in the calculation of biological asset values.

#### **h) Concentration risk**

The Company operates exclusively in Southern Nevada. Should economic conditions deteriorate within that region, its results of operations and financial position would be negatively impacted.

### **CAPITAL RESOURCES**

The Company has a recent history of operating losses. It may be necessary for the Company to arrange for additional financing to meet its on-going growth initiatives.

Management believes it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. There can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing may be favourable.

### **CAPITAL MANAGEMENT**

The Company’s capital consists of shareholders’ equity. The Company’s objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly liquid, high-grade financial instruments. There were no changes to the Company’s approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements as at December 31, 2020 and as at the date hereof.



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**RELATED PARTY TRANSACTIONS**

Related party transactions are summarized as follows:

The following is a summary of the Company’s related party transactions during the period:

(a) Building Leases and Printed Marketing Material

The Company sub-lets approximately 2,000 square feet of office space and purchases certain printed marketing collateral and stationery items from a company owned by one of the Company’s Co-CEO. Amounts paid to such company for rent for the year ended December 31, 2020 and 2019 equalled \$24,040 and \$24,040 respectively, and amounts paid for printed marketing collateral and stationery items equalled \$170,009 and \$279,457, respectively.

The Company leases a cultivation facility from an entity owned by the Company’s co-CEOs. Rents paid for this facility for the year ended December 31, 2020 equaled \$339,688, respectively (2019 – *nil*).

(b) Officer Compensation

The Company’s key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company’s executive management team and board of directors. The following table summarizes amounts paid to related parties as compensation for the years ended December 31, 2020 and 2019:

	Year Ended December 31,	Remuneration or fees <sup>(1)</sup>	Share based payments <sup>(1)</sup>	Included in accounts payable <sup>(1)</sup>
Management compensation	2020	\$ 1,796,223	\$ 1,803,894	\$ 29,202
	2019	1,526,638	3,259,729	-
Director compensation	2020	\$ -	\$ 282,687	\$ -
	2019	-	407,598	-

(c) Other

A company owned by one of the Company’s executives pays the Company for storage space. Amounts paid to the Company for storage space totalled \$62,720 for the year ended December 31, 2020, respectively (2019 – *nil*).

**MANAGEMENT**

The Company is dependent upon the personal efforts and commitments of its existing management. To the extent that management’s services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

**NEW ACCOUNTING STANDARDS AND INTERPRETATIONS**

**New Accounting Standards and Interpretations Adopted in the Prior Year**

On January 1, 2019, the Company implemented IFRS 16 “Leases”. The impacts on the implementation of IFRS 16 on the Company’s unaudited condensed interim consolidated financial statements is described below.

(i) *IFRS 16 Leases*

The adoption of IFRS 16 resulted in changes to property and equipment contracts which were previously classified as operating leases under IAS 17. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low





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value. A lessee is required to recognize a right of use (“**ROU**”) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company applied the modified retrospective approach to remaining lease payments as of January 1, 2019, without restatement of comparative figures presented for 2018 as previously reported under IAS 17.

Upon the initial application as of January 1, 2019, ROU assets and lease liabilities were recorded, with no net impact on retained earnings. For leases previously classified as operating leases under IAS 17, the lease liability has been measured at the present value of the remaining lease payments, discounted using the Company’s incremental borrowing rate as at the date of application. Additionally, the ROU asset has been measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized in the statement of financial position immediately before the date of initial application.

For leases previously classified as finance leases under IAS 17, the lease liability and the ROU asset have been measured as the carrying amount of the lease asset and liability immediately before the date of initial application.

The following table summarizes the impact of the initial application on the statement of financial position:

	Balance at December 31, 2018	IFRS 16 Initial Application	Balance at January 1, 2019
<b>ASSETS</b>			
Property, plant & equipment	\$ 17,256,484	\$ (52,136)	\$ 17,204,348
Right of use assets	-	8,082,639	8,082,639
Total			
<b>LIABILITIES</b>			
Capital lease obligations - current	\$ 14,459	\$ (14,459)	\$ -
Capital lease obligations - long-term	29,768	(29,768)	-
Deferred rent	427,508	(427,508)	-
Lease liabilities	-	8,494,971	8,494,971

The Company has elected to apply the practical expedient to grandfather the assessment of which transaction are leases on the date of initial application as previously assessed under IAS 17 and IFRIC 4. The Company has elected to account for all short-term leases and all leases for which the underlying asset is of low value as expenses on either a straight-line basis over the term of the lease or another systematic basis, and thus not recognize a lease liability and a right-of-use asset at the date of initial application. Short-term leases are leases with a lease term of 12 months or less.

The Company’s only significant debt obligation is a promissory note payable for land secured by a deed of trust. Further, due to the nature of the Company’s business operations in the Cannabis industry and its illegality under United States Federal regulations, the Company is unable to borrow monies from U.S financial institutions.

Consequently, when measuring lease liabilities, the Company discounted lease payments using a rate of 15.0%, which represents the estimated weighted average incremental borrowing rate of the Company on the date of application. The Company has not included extension options in the measurement of lease terms for those specific leases for which it is not reasonably certain to exercise the related extension options. The Company determines the probability of exercising a renewal option when determining the lease term by considering whether there is an economic incentive to exercise the renewal option based on investments in major leaseholds and operational performance.



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The following table reconciles the Company's operating lease commitments at December 31, 2018, as previously disclosed in the Company's financial statements, to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	\$ 9,153,300
Extension options reasonably certain to be exercised	22,758,094
Finance lease obligations recognized at December 31, 2018	44,227
Discounted using incremental borrowing rate	(23,460,650)
<b>Lease liabilities as at January 1, 2019</b>	<b>\$ 8,494,971</b>

### Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact to the Company have been excluded herein.

(i) *IFRIC 23 Uncertainty Over Income Tax Treatments*

IFRIC 23 Clarifies the application of recognition and measurement requirements in IAS 12 – Income Taxes when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers uncertain tax treatments separately or as a group, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019, with earlier application permitted. The adoption of this standard did not have a material impact on the condensed interim consolidated financial statements.

On October 22, 2018, the IASB issued a narrow scope amendment to IFRS 3 Business Combinations. The amendment narrowed and clarified the definition of a business as well as permitted a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. This amendment is effective on January 1, 2020. The Company intends to adopt this amendment in its consolidated financial statements for the annual period beginning January 1, 2020. The adoption of this standard did not have a material impact on the condensed interim consolidated financial statements.

On October 31, 2018, the IASB issued amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors. These amendments clarify and align the definition of material and provide guidance to help improve consistency in the application of materiality when used in other IFRS standards. These amendments are effective on January 1, 2020. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning January 1, 2020. The adoption of this standard did not have a material impact on the condensed interim consolidated financial statements.

### Risk Factors

The Company operates in the US medical and recreational adult-use cannabis market, and more specifically in the state of Nevada, and may face many and varied kinds of risks. While risk management cannot eliminate the impact of



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all potential risks, the Company strives to manage such risks to the extent possible and practical. Following are the risk factors most applicable to the Company:

- The production and sale of recreational cannabis remain illegal under federal law and it is possible that the Company may be forced to cease activities. The U.S. federal government, through both the Drug Enforcement Agency (“DEA”) and Internal Revenue Service (“IRS”), has the right to actively investigate, audit and shut-down marijuana growing facilities, processors and retailers. The U.S. federal government may also attempt to seize the Company’s property. Any action taken by the DEA and/or the IRS to interfere with, seize, or shut down the Company’s operations will have an adverse effect on the Company’s business, operating results and financial condition.
- Some of the Company’s current and planned business activities, while believed to be compliant with certain applicable U.S. state and local law, are illegal under United States federal law. Although certain states and territories of the U.S. authorize medical or recreational adult-use cannabis production and distribution by licensed or registered entities under applicable state laws, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the U.S. Controlled Substances Act (“CSA”). A shareholder’s contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.
- Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the 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, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult 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.
- The possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law and the Company may be deemed to be aiding and abetting illegal activities through the contracts it has entered into and the products that it provides and sells. The Company intends to continue to cultivate cannabis, process and sell cannabis products, operate dispensaries, lease intellectual property and/or real property in Nevada. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against the Company, including, but not limited to, aiding and abetting another’s criminal activities. The Federal aiding and abetting statute provides that anyone who “commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal.” Because of such an action, the Company may be forced to cease operations and members could lose their entire investment. Such an action would have a material negative effect on the business and operations of the Company.



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- Nevada’s regulatory system is relatively new and constantly evolving, so there are uncertainties as to how authorities in the state of Nevada will interpret and administer applicable regulatory requirements. Any determination that the Company fails to comply with state cannabis regulations would require the Company either to significantly change or terminate lines of business, or the business as a whole, which could adversely affect the Company’s business.
- Regulatory risks are inherent to the Company. The activities of the Company are subject to regulation by governmental authorities. The Company’s business objectives are contingent upon, in part, compliance with regulatory requirements enacted by US Federal and the state of Nevada governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products in each jurisdiction in which it operates. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by relevant governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company. Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company’s ability to import, distribute or, in the future, produce cannabis. Amendments to current laws and regulations governing the importation, distribution, transportation and/or production of cannabis, or more stringent implementation thereof could have a substantial adverse impact on the Company.
- Regulatory scrutiny of the Company’s industry may negatively impact its ability to raise additional capital. The Company’s business activities are expected to rely on newly established and/or developing laws and regulations in Nevada. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company’s profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug Administration (“FDA”), Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Advisory or other federal, Nevada or other applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the Company’s industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital, which could reduce, delay or eliminate any return on investment in the Company.
- The size of the Company’s target market is difficult to quantify, and members will be reliant on their own estimates on the accuracy of market data. Because the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for shareholders and potential shareholders to review in deciding about



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whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, shareholders and potential shareholders will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly purchases and follows market research.

- The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate. In February 2014, FinCEN issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the DOJ, FinCEN or other federal regulators. Thus, most banks and other financial institutions do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial services in the United States and may have to operate the Company's U.S. business on an all-cash basis. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned. The Company is actively pursuing alternatives that ensure its operations will continue to be compliant with the FinCEN guidance and existing disclosures around cash management and reporting to the IRS once it moves from development into production.
- U.S. Federal trademark and patent 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 CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent 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 the use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.
- The Company's contracts may not be legally enforceable in the United States. Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.
- There is uncertainty surrounding the Biden Administration and acting Attorney General Monty Wilkinson and the recently nominated, as yet to be confirmed, Attorney General Merrick Garland and their influence and policies in opposition to the cannabis industry as a



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whole. As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis business in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored the Cole Memorandum. The Cole Memorandum was addressed to all United States district attorneys acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US states have enacted laws relating to cannabis for medical purposes. The Cole Memorandum outlined certain priorities for the DOJ relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority. On January 4, 2018, US former Attorney General Jeff Sessions issued a memorandum to US district attorneys which rescinded the Cole Memorandum. With the Cole Memorandum rescinded, US federal prosecutors can exercise their discretion in determining whether to prosecute compliant state law cannabis-related operations as violations of U.S. federal law throughout the United States. The potential impact of the decision to rescind the Cole Memorandum is unknown and may have a material adverse effect on the Company's business and results of operations.

- The Company's business interests in the United States include the cultivation and provision of cannabis and cannabis-infused and related products. The Company is not aware of any non-compliance with the applicable licensing requirements or regulatory framework enacted by the state of Nevada where the Company's businesses are operating. In February 2017, the Task Force on Crime Reduction and Public Safety was established through an executive order by the President of the United States. Names of those serving on the task force have not been published, and the group was supposed to deliver its recommendations by July 27, 2017. The recommendations of the group were not made public on that date, but the Attorney General issued a public statement which said he had received recommendations "on a rolling basis" and he had already "been acting on the task force's recommendations to set the policy of the department." Based on previous public statements made by the Attorney General, there had been some expectation that the task force may make some recommendations with respect to laws relating to cannabis. However, to date there has been no public announcement in this regard from the Attorney General. Due to the classification of cannabis as a Schedule I controlled substance under the CSA, banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes. Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under federal law, including cannabis,



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and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA. The Company may also be exposed to the foregoing risks.

- In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company 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 in the foreseeable future, in the event that a determination was made that any such investments in the United States could reasonably be shown to constitute proceeds of crime, the Company may decide to, or be required to, suspend declaring or paying dividends without advance notice and for an indefinite period of time.
- Third party service providers to the Company may withdraw or suspend their service under threat of prosecution. Since under U.S. federal law the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.
- The FDA regulation of medical-use cannabis and the possible registration of facilities where medical-use cannabis is grown could negatively affect the medical-use cannabis industry, which would directly affect the Company's financial condition. Should the federal government legalize cannabis for medical use, it is possible that the FDA would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, it is unknown what the impact would be on the medical-use cannabis industry, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results and financial condition.
- The Company is subject to Section 280E of the Internal Revenue Code of 1986 because of our business activities and the resulting disallowance of tax deductions could cause us to incur more than anticipated U.S. federal income tax. Section 280E of the Internal Revenue Code of 1986 (the "Code") provides that, with respect to any taxpayer, no deduction or credit is allowed for expenses incurred during a taxable year "in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of

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trafficking in controlled substances (within the meaning of Schedule I and II of the CSA) which is prohibited by federal law or the law of any state in which such trade or business is conducted.” Because cannabis is a Schedule I controlled substance under the CSA, Section 280E by its terms applies to the purchase and sale of cannabis products and the Company is subject to Section 280E. If the IRS were to take the position that the Company is primarily or vicariously liable under federal law for “trafficking” a Schedule I substance (cannabis) under section 280E of the Code or for any other violations of the CSA, the IRS may seek to apply the provisions of Section 280E to the Company and disallow certain ordinary tax deductions. If such tax deductions are disallowed it may increase the Company’s effective tax rate and have an adverse effect on the Company’s operating results and financial condition.

- The approach to the settlement of trades in Canada through CDS Clearing and Depository Services Inc. (“CDS”) of issuers with cannabis-related activities in the United States may be subject to change or may not proceed as previously outlined. On February 8, 2018, CDS announced the signing of a Memorandum of Understanding (“MoU”) with recognized Canadian equities exchanges outlining the parties' understanding of Canada's regulatory framework applicable to the rules and procedures and regulatory oversight of the exchanges and CDS. The MoU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. Accordingly, CDS will not ban the clearing of securities of issuers with marijuana-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 at a time when the Common Shares are listed on a stock exchange, 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 until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of the applicable stock exchange. Additionally, although CDS will not implement policies that would result in the refusal to settle trades for cannabis issuers that have investments in the United States, individual stock exchanges in Canada retain the ability under certain circumstances, when applying listing requirements and rules related to issuers' compliance with applicable laws, to halt or delist an issuers' listed securities.
- Notwithstanding that a majority of states have legalized medical marijuana, there has been no change in US federal banking laws related to the deposit and holding of funds derived from activities related to the marijuana industry. Given that US federal law provides that the production and possession of cannabis is illegal, there is a strong argument that banks cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty accessing the US banking system and traditional financing sources. The inability to open bank accounts with certain institutions may make it difficult to operate the business of the Company and leaves their cash holdings vulnerable.
- Because the cannabis industry remains illegal under US federal law, any property owned by participants in the cannabis industry which are either used in the course of conducting such business, or are the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property was never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.





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- The current global uncertainty with respect to the spread of the COVID-19 virus (the “coronavirus”) and its effect on the broader global economy may have a significant negative effect on the Company. While the precise impact of the COVID-19 virus on the Company remain unknown, rapid spread of the COVID-19 virus may have a material adverse effect on global economic activity, and can result in volatility and disruption to global supply chains, operations, mobility of people and the financial markets, which could affect interest rates, credit ratings, credit risk, inflation, business, financial conditions, results of operations and other factors relevant to the Company.

**DISCLOSURE OF INTERNAL CONTROLS**

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the audited annual consolidated financial statements for the year ended December 31, 2020 do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented, and (ii) the audited annual consolidated financial statements for the year ended December 31, 2020, fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of and for the year ended December 31, 2020.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as defined in NI 52-109. In particular, the certifying officers filing the certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s generally accepted accounting principles.

The issuer’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.