



**Vertical Peak Holdings Inc.  
(Formerly High Fusion Inc.)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED APRIL 30, 2023**

**June 29, 2023**

This management's discussion and analysis (“**MD&A**”), dated June 29, 2023, is management's assessment of the operations and the financial results of Vertical Peak Holdings Inc. (“**Vertical Peak**”, or the “**Company**”). This MD&A should be read in conjunction with the Company's consolidated financial statements and related notes for the three months ended April 30, 2023, prepared in accordance with International Financial Reporting Standards (“**IFRS**”). All figures are in Canadian dollars unless stated otherwise.

This discussion contains forward-looking statements that are historical in nature and involves risks and uncertainties. Forward-looking statements are not a guarantee as to Vertical Peak’s future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

## CAUTIONARY STATEMENTS REGARDING U.S. CANNABIS OPERATIONS

Vertical Peak Holdings Inc. ("Vertical Peak") currently does, and is expected to continue to, derive its revenues from the cannabis industry in certain states in the United States, which industry is illegal under federal law in the United States. Vertical Peak is currently directly involved (through its licensed wholly owned subsidiaries) in the medical and/or adult-use cannabis industry in the State of Colorado, as has Material Ancillary Involvement in medical and adult-use cannabis industry in the State of California. See section titled "*Issuers with U.S. Cannabis-Related Assets*" of this MD&A.

Marijuana is currently illegal under United States federal law. The federal government of the United States regulates drugs through the Controlled Substances Act (the "U.S. CSA"), which places controlled substances on one of five schedules. Currently, marijuana is classified as a Schedule I controlled substance. This means it has a high potential for abuse and currently has no accepted medical use in treatment in the United States. Schedule I substances are subject to production quotas imposed by the United States Drug Enforcement Agency ("DEA"). Thus, the federal government of the United States has specifically reserved the right to enforce federal law in regards to the sale and disbursement of medical or adult-use marijuana even if such sale and disbursement is sanctioned by state law.

Over half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under U.S. CSA in the United States and as such, is in violation of federal law in the United States. Despite the current state of the federal law and the U.S. CSA, certain states have legalized the recreational use of cannabis, including Colorado and California, where Vertical Peak has or may be deemed to have a direct or material ancillary involvement in the U.S. cannabis industry. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On January 4, 2018, former United States' Attorney General Jeff Sessions issued a memorandum to United States Attorneys which rescinded previous guidance from the United States Department of Justice specific to marijuana enforcement in the United States, including the Cole Memorandum (as defined herein). With the Cole Memorandum rescinded, United States' federal prosecutors have been given discretion in determining whether to prosecute marijuana related violations of United States federal law, including in jurisdictions in which the production, distribution and use of marijuana is permitted under state law.

There is no guarantee that state laws legalizing and regulating the sale and use of marijuana will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use marijuana (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to marijuana in states where the cultivation, processing, sale and use; or if such laws are repealed could impact Vertical Peak and its business, results of operation, financial condition, and prospects in a materially adverse way. See section titled "*Risk Factors*" of this MD&A for additional information on such risk.

Notwithstanding the paramountcy of federal law in the United States, enforcement of such laws may be limited by other means or circumstances, which are further described in this document. See section titled "*Enforcement of United States Federal Laws and United States Enforcement Proceedings*" of this MD&A. Unless and until the United States Congress amends the U.S. CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk

that federal authorities may enforce current federal law, which may adversely affect the current and future operations of Vertical Peak in the United States. As such, there are a number of significant risks associated with Vertical Peak's existing and future operations in the United States, and such operations may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, Vertical Peak may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Vertical Peak's ability to operate in the United States or any other jurisdiction. See section titled "*Risk Factors*" of this MD&A.

In light of the political and regulatory uncertainty surrounding the treatment of marijuana-related activities in the United States, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators ("CSA") published Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities ("Staff Notice 51-352") setting out CSA's disclosure expectations for certain risks facing issuers with Cannabis-related activities in the United States. Staff-Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with cannabis-related activities in the United States and includes additional disclosure expectations that apply to all issuers with cannabis-related activities in the United States.

For the reasons set forth above, Vertical Peak's existing interests and operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. There are a number of significant risks associated with the business of Vertical Peak. See sections titled "*Issuers with U.S. Cannabis-Related Assets*" and "*Risk Factors*" of this MD&A.



## Description of Business

Vertical Peak Inc. (“**Vertical Peak**”, or the “**Company**”) is a publicly traded company incorporated in Canada on July 19, 2004, under the *Canada Business Corporations Act*. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company has two classes of common shares issued and outstanding - subordinated voting shares (“**SVS**”), which entitle the holders thereof to one vote per SVS; and multiple voting shares (“**MVS**”) which entitle the holders thereof to ten votes per MVS. SVS have been listed on the Canadian Securities Exchange (“**CSE**”) under the trading symbol “**FUZN**” since March 23, 2015 and have been quoted on the OTC Pink since April 29, 2015 under the symbol “**SPLIF**”. MVS are not listed for trading or quoted on any stock exchange. On September 3, 2021 the Company consolidated all issued and outstanding SVS on a twenty (20) for one (1) basis (“**SVS Consolidation**”). All references to SVS in this document are on post-SVS Consolidation basis.

Vertical Peak is focused on manufacturing branded products in the cannabis industry, with a specific focus on edibles and oil extracts for medical and adult recreational use. The Company works exclusively in jurisdictions where such activity is permitted and regulated by state law. The Company's corporate strategy is focused on identifying, acquiring and/or developing high-value products (including formulae and recipes), and brands for its cannabis infused product lines (“**Cannabis-Infused Products**”) for sale by the Company where it has secured the required licensing, or for use by licensed operators (“**Licensed Operators**”).

As at April 30, 2023, the members of Company's management and Board of Directors consisted of:

<b>Name</b>	<b>Position</b>
Bill Gillispie	Director and Chief Executive Officer
Michael Willetts	Chief Financial Officer
Adam Szweras	Director and Chairman of the Board
Austin Birch	Director
Billy Morrison	Director and Chief Technology Officer
Rachel Wright	Director, Chair of the Audit Committee
Ross Mitgang	Director, Audit Committee

## **Key Developments: Third Quarter ended April 30, 2023 to the date hereof**

### **Financial Highlights**

Vertical Peak experienced growth in revenues and gross margin during the three and nine month period ended April 30, 2023.

For the three months ended April 30, 2023, the Company recognized sales of \$2.4 million and gross margin of 75% compared with \$1.3 million in revenues and gross margin of 79% during the corresponding three-month period of 2022.

- For the nine months ended April 30, 2023, the Company recognized sales of \$6.7 million with gross margin of 44% compared with \$4.7 million in revenues and 39% in gross margin during the corresponding nine-month period of 2022.
- The improvement in revenues and in gross margin during the three and nine-month periods was primarily due to improved production volume and retail sales of cannabis which had been suppressed during the comparable periods as a result of maintenance closures. Margins were also lower in the first three quarters of fiscal 2022 due to losses experienced with the Company's outdoor grow in Mendicino CA.
- Operating costs increased for the three month period ended April 30, 2023 by 57% as a result of higher salary, benefits, and consulting fees and general and administrative costs. Operating costs decreased 4% during the nine month period ended April 30, 2023 due to lower shared based payments and acquisition costs partially offset by higher salaries and benefits, and general and administrative costs.
- Total other income (excluding impairment) was an improvement of \$1.3 million for the three month period ended April 30, 2023 compared to the prior period. Total other expenses (excluding impairment) from the nine month period improved \$1.7 million. For both periods, this is due to debt settlements and gains on investments that did not repeat in 2023 and the gain on sale of assets.
- As a result of the above gains in the corresponding period of 2022, pre tax losses during the three and nine month period ended April 30, 2023 improved by 77% and 39% respectively. Given that most of the gains in the comparable period were non-cash, and given an increase in payables, the Company experienced improved cash used in operating activities which fell from \$1,453,957 in the nine months ended January 31, 2022 to \$547,233 in the nine months ended April 30, 2023.
- The Balance sheet of the Company has changed very little between July 31, 2022 and April 30, 2023 with total assets of declining only 1% to \$12.5 million. Due to maturing debt and excise taxes, the Company's current liabilities increased by \$4.8 million between July 31, 2022 and April 30, 2023 resulting in a decline in working capital during this period from -\$12.2 million to -\$16.9 million. This working capital deficit is expected to decline with the extension of the August 2018 debentures and the repayment of the 2020 Debentures which occurred subsequent to year end.

## Key Developments

### *Neural Therapeutics Arrangement Agreement*

On March 7, 2023 the Company announced that the Arrangement Agreement was amended effective February 24, 2023. Pursuant to the amended Agreement, the Company agreed to distribute 4,716,667 Neural Shares to the shareholders of the Company, which represents approximately 12% of Neural Shares issued and outstanding as of the date hereof. The Neural Shares will be distributed to all the holders of Vertical Peak SVS and Vertical Peak MVS on a pro-rata basis, based on the number of votes held by each of the SVS and MVS holders. Closing of the transaction is subject to several conditions, including: (i) shareholder approval which Vertical Peak intends to obtain at an annual and special meeting of shareholder ("**Meeting**"); (ii) court approval of the transaction pursuant to the amended Agreement; and (iii) certain other customary conditions set out in the amended Agreement.

The amended Agreement also provides for a few changes, briefly summarized below:

- In connection with the transaction, Vertical Peak intends to change its name to "Vertical Peak Holdings Inc." or such other name as Vertical Peak may determine ("**Name Change**").
- In connection with the transaction, it is anticipated that Vertical Peak will continue (the "**Continuance**") from the Canada Business Corporations Act to the British Columbia Business Corporations Act ("**BCBCA**") prior to the Plan of Arrangement being effective. The Continuance requires the affirmative vote of at least 66<sup>2</sup>/<sub>3</sub>% of the votes cast at the Meeting as well as a simple majority of the votes cast by Vertical Peak shareholders, excluding any persons required to be excluded in accordance with Multilateral Instrument 61-101. It is anticipated that Vertical Peak Shares representing approximately 16.0% of the votes attaching to the issued and outstanding Vertical Peak Shares will be excluded from this vote.

The Plan of Arrangement will occur under the provisions of BCBCA, whereby holders of SVS and MVS will receive an aggregate of 4,716,667 Neural Shares via a share exchange mechanism ("**Share Exchange**"). The Agreement provides for adjustments of the Share Exchange ratio if the Vertical Peak share structure changes between the date of this Agreement and the effective date of the Transaction.

#### *August 2018 Debenture Amendments*

On February 7, 2023 the Company announced an extension of the term of the August 2018 Debentures from February 3, 2023 to March 3, 2023.

On February 23, 2023 the Company announced that it has agreed with the holders of the August 2018 Debentures to amend certain terms and to issue SVS for outstanding interest due. The amendments include: (i) extension of the maturity to August 3, 2024; (ii) reduction in interest rate from 24% back to the original semi-annual interest payments at 10% per annum in cash or 12% per annum payable in the form of shares of the Company as calculated based on the 20 day VWAP on each payment date of December 31 and June 30; (iii) issuance of 25,299,564 subordinated voting shares representing interest due to the holders of the Debentures; (iv) waiver of the conversion price adjustment provision for issuances of up to 10,125,050 multiple voting shares including 6,750,000 multiple voting shares to be issued to MJ Direct; and (v) an amendment to the restated subordination and postponement agreement with the holders of the Debentures to provide security against the Oregon property owned by the Company to support vendor and creditor obligations.

#### *MJ Direct Licencing Agreement*

On February 23, 2023, the Company announced that it has entered into an agreement with MJ Direct Inc to license a software application for direct delivery of cannabis in California ("Licencing Agreement"). The Licencing Agreement pertains to the The MJ Direct web site mjdirect.com as well as the MJDirect application has been specifically developed for direct consumer delivery. The application is available on the Apple App Store and the Google Play Store. Through the Licencing Agreement, Vertical Peak will have the exclusive right to the MJ Direct software and intellectual property for two years which will allow the Company to enter the rapidly growing direct delivery market in California.

The terms of the Licencing Agreement provide for the exclusive use of software and intellectual property by the Company for two years and a one-time licensing fee of US\$500,000 (Canadian \$675,000) the payment for which will be satisfied through the issuance of multiple voting shares of the Company at a price of \$0.10 per share resulting in the issuance of 6,750,000 multiple voting shares. The Licencing Agreement also provides the Company with an exclusive option to purchase 100% of

MJ Direct for US\$1.5 million. Such option may be exercised at any date during the 2 year term of the Licencing Agreement and is payable in multiple voting shares at a price of \$.50.

#### *Settlement of Elan Capital Note*

Subsequent to the end of the second quarter; on February 10, 2023, the Company has agreed to settle the obligation to Elan Capital with a payment of US\$20,000 plus monthly payments of US\$20,000 over 11 months commencing on March 1, 2023.

#### *Amendment to the First Loan agreements*

On March 15, 2023 the Company announced that it has agreed to an amendment to the Company's First Loan agreements to provide for one-year extensions of the maturities and a reduction in interest rate to 12% per annum payable at the new maturity dates of February 10, 2024, February 23, 2024 and March 13, 2024.

The principal balance plus accrued interest will be increased by 10% to US\$626,725 and the amendment will provide for interim payments of principal as follows: US\$35,000 on May 1, 2023; US\$20,000 on May 11, 2023; US\$10,000 on May 24, 2023; US\$20,000 on July 10, 2023; US\$10,000 on July 23, 2023; and US\$50,000 on August 31, 2023.

As part of the amendments described above, the lenders will be issued 3,900,000 share purchase warrants each of which entitle the holder to purchase one SVS at a price of \$0.05 per SVS and for a period of two years maturing as follows: 600,000 Warrants on February 10, 2025; 300,000 Warrants on February 23, 2025 and 3,000,000 Warrants on March 13, 2025.

#### *Sale of Colorado Property and repayment of 2020 Debentures*

On March 9, 2023 the Company closed the sale of the Company's property in Pueblo Colorado. Under the terms of a purchase agreement the purchase price of US\$1.175 million was paid in cash with US\$850,000 directed to the collateral agent for the Company's 2020 Debentures, which will be used to repay the debentures in full. Outstanding interest due to the date of repayment will be paid in SVS of the company subject to CSE approval.

A portion of the proceeds will be directed for purposes of settlement of outstanding property taxes, commissions and transaction costs. After the settlement of the above obligation and repayment of 2020 Debentures the Company will use the remaining proceeds to satisfy current and pending obligations.

#### *Settlement of Directors Compensation*

On March 24, 2023 the Company settled obligations to the directors with the transfer of 2,853,333 Neural Therapeutic Inc. shares held by the Company to the following directors as compensation for board services:

- 1,120,000 NT shares to Adam Szweras;
- 566,667 NT shares to Brian Presement;
- 333,333 NT shares to Billy Morrison;
- 200,000 NT shares to Jason Dyck;
- 400,000 NT shares to Aaron Johnson; and
- 233,333 NT shares to Rachel Wright

Since July 31, 2022, the Company has successfully completed a number of changes to the capital structure and corporate advancements in the business as follows:

#### ***Amendment to Senior Secured Convertible Debentures***

On August 3, 2022 the Company was granted an extension of the maturity date of the August 2018 senior secure convertible debentures (“**August 2018 Debentures**”) to February 3, 2023. In addition, the interest on the debentures increased to 24% per annum, one half of which, was added to the principal amount increasing the principal outstanding balance from \$4,205,073.25 to \$4,458,068. The remaining half of the interest due to maturity, representing \$252,995 shall be payable, prior to maturity, in SVS a price equal to the 20-day volume weighted average price per SVS as approved by the CSE. (This interest was satisfied through the issuance of SVS. See item (iii) below)

On February 7, 2023 the Company announced an extension of the term of the August 2018 Debentures from February 3, 2023 to March 3, 2023.

On February 23, 2023 the Company announced that it has agreed with the holders of the August 2018 Debentures to amend certain terms and to issue SVS for outstanding interest due. The amendments include: (i) extension of the maturity to August 3, 2024; (ii) reduction in interest rate from 24% back to the original semi-annual interest payments at 10% per annum in cash or 12% per annum payable in the form of shares of the Company as calculated based on the 20 day VWAP on each payment date of December 31 and June 30; (iii) issuance of 25,299,564 subordinated voting shares representing interest due to the holders of the August 2018 Debentures; (iv) waiver of the conversion price adjustment provision for issuances of up to 10,125,050 multiple voting shares including 6,750,000 multiple voting shares to be issued to MJ Direct; and (v) an amendment to the restated subordination and postponement agreement with the holders of the August 2018 Debentures to provide security against the Oregon property owned by the Company to support vendor and creditor obligations.

#### ***Neural Therapeutics Developments and Spin Out Transaction***

On September 12, 2022, the Company announced that its partially-owned subsidiary, Neural Therapeutics Inc. (“**Neural**”) has achieved the following milestones:

- In partnership and collaboration with its extraction partners based in Nevada, Neural has developed a new and novel extraction methodology for full spectrum Mescaline and Mescaline isolate from the San Pedro plant. Neural has submitted a provisional patent application on August 26, 2022 to the United States Patent and Trademark Office.
- On August 1, 2022 Neural entered into a service agreement with a Peruvian cultivator, Cactus Knize, who have agreed to grow, harvest and supply Neural with the plant materials to support studies and product development.
- On August 4, 2022 Neural entered into a services agreement with UNIVERSIDAD PERUANA CAYETANO HEREDIA, a private non-profit university located in Lima, Peru; and
- On September 8, 2022, in conjunction with Cayetano University, Neural has submitted an application to SERFOR, which will allow the representatives of Neural and Cayetano University to access and handle San Pedro cacti for research purposes.

On November 4, 2022, the Company announced that it has entered into arrangement agreement (“**Agreement**”) with Neural with respect to the distribution of a portion of Vertical Peak's shareholdings in Neural to Vertical Peak shareholders. Subject to shareholder approval, the distribution will occur by way of a statutory plan of arrangement under the provisions of Canada Business Corporations Act,



whereby the Company's shareholders will receive common shares in the capital of Neural ("**Neural Shares**") via a share exchange. On March 7, 2023 the Company announced that the Arrangement Agreement was amended effective February 24, 2023.

Pursuant to the amended Agreement, the Company agreed to distribute 4,716,667 Neural Shares to the shareholders of the Company, which represents approximately 12% of Neural Shares issued and outstanding as of the date hereof. The Neural Shares will be distributed to all the holders of Vertical Peak SVS and Vertical Peak MVS on a pro-rata basis, based on the number of votes held by each of the SVS and MVS holders. Closing of the transaction is subject to several conditions, including: (i) shareholder approval which Vertical Peak intends to obtain at an annual and special meeting of shareholder ("**Meeting**"); (ii) court approval of the transaction pursuant to the amended Agreement; and (iii) certain other customary conditions set out in the amended Agreement.

The amended Agreement also provides for a few changes, briefly summarized below:

- In connection with the transaction, Vertical Peak intends to change its name to "Vertical Peak Holdings Inc." or such other name as Vertical Peak may determine ("**Name Change**").
- In connection with the transaction, it is anticipated that Vertical Peak will continue (the "**Continuance**") from the Canada Business Corporations Act to the British Columbia Business Corporations Act ("**BCBCA**") prior to the Plan of Arrangement being effective. The Continuance requires the affirmative vote of at least 66 $\frac{2}{3}$ % of the votes cast at the Meeting as well as a simple majority of the votes cast by Vertical Peak shareholders, excluding any persons required to be excluded in accordance with Multilateral Instrument 61-101. It is anticipated that Vertical Peak Shares representing approximately 16.0% of the votes attaching to the issued and outstanding Vertical Peak Shares will be excluded from this vote.
- The Plan of Arrangement will occur under the provisions of BCBCA, whereby holders of SVS and MVS will receive an aggregate of 4,716,667 Neural Shares via a share exchange mechanism ("**Share Exchange**"). The Agreement provides for adjustments of the Share Exchange ratio if the Vertical Peak share structure changes between the date of this Agreement and the effective date of the Transaction.

### ***Financing Transactions***

On December 28, 2022, the Company announced that it has issued 1,350,000 MVS at a price of \$0.10 per MVS for gross proceeds of \$135,000, as approved by the CSE. In addition, a second investment has been completed in the form of a contribution of US\$150,000 of inventory. The second investment was made in exchange for an unsecured note payable in the amount of US\$150,000. This note is expected to be settled with the issuance of approximately 2,025,000 MVS at a price of \$0.10 per MVS as approved by the CSE.

On January 27, 2023 the Company entered into a loan agreement with FMICA in the amount of \$74,000 ("FMICA Loan"). The FMICA Loan shall be repaid the earlier of: the Company receiving a refund with respect to FMICA harmonized sales tax (HST) payable by Canada Revenue Agency; or the Borrower raising further capital, either by way of equity subscription or debt.

### ***MJ Direct Licencing Agreement***

On February 23, 2023, the Company announced that it has entered into an agreement with MJ Direct Inc to license a software application for direct delivery of cannabis in California (“Licensing Agreement”). The Licencing Agreement pertains to the The MJ Direct web site mjdirect.com as well as the MJDirect application has been specifically developed for direct consumer delivery. The application is available on the Apple App Store and the Google Play Store. Through the Licensing Agreement, Vertical Peak will have the exclusive right to the MJ Direct software and intellectual property for two years which will allow the Company to enter the rapidly growing direct delivery market in California.

The terms of the Licensing Agreement provide for the exclusive use of software and intellectual property by the Company for two years and a one-time licensing fee of US\$500,000 (Canadian \$675,000) the payment for which will be satisfied through the issuance of multiple voting shares of the Company at a price of \$0.10 per share resulting in the issuance of 6,750,000 multiple voting shares. The Licensing Agreement also provides the Company with an exclusive option to purchase 100% of MJ Direct for US\$1.5 million. Such option may be exercised at any date during the 2 year term of the Licencing Agreement and is payable in multiple voting shares at a price of \$.50.

### ***Changes to Board of Directors and Compensation***

On January 20, 2023 the Company announced that Lincoln Fish has resigned his position as director and executive of the Company. The board position was replaced by Austin Birch who was a co-founder of OutCo Labs Inc.

On April 30, 2023 Aaron Johnson has resigned his position as director of the Company. The board position will be replaced by Ross Mitgang. Ross currently serves as controller of Plaza Capital, a boutique merchant banking and advisory firm and is a director on several public and private companies.

On January 20, 2023 the Company announced the compensation committee and board of directors of the Company have approved the grant of 6,625,000 restricted share units (RSUs) and \$214,000 in deferred compensation to officers and directors of the Company. The RSUs will expire 3 years from the date of issue and are fully vested.

Given that there is insufficient availability under the Company’s Option Plan and RSU Plan to settle the deferred director compensation, this obligation is expected to be settled by way of a transfer of 2,853,333 Neural Shares held by the Company as follows:

- 1,120,000 NT Shares to be transferred to Adam Szweras;
- 566,667 NT Shares to be transferred to Brian Presement;
- 333,333 NT Shares to be transferred to Billy Morrison;
- 200,000 NT Shares to be transferred to Jason Dyck;
- 400,000 NT Shares to be transferred to Aaron Johnson; and
- 233,333 NT Shares to be transferred to Rachel Wright.

### ***Colorado Property Sale and 2020 Debenture Repayment***

On March 9, 2023 the Company closed the sale of the Company’s property in Pueblo Colorado. Under the terms of a purchase agreement the purchase price of US\$1.175 million was paid in cash with US\$850,000 directed to the collateral agent for the Company’s 2020 Debentures, which will be used

to repay the debentures in full. Outstanding interest due to the date of repayment will be paid in SVS of the company subject to CSE approval.

A portion of the proceeds will be directed for purposes of settlement of outstanding property taxes, commissions and transaction costs. After the settlement of the above obligation and repayment of 2020 Debentures the Company will use the remaining proceeds to satisfy current and pending obligations.

#### ***Amendment to the First Loan agreements***

On March 15, 2023 the Company announced that it has agreed to an amendment to the Company's First Loan agreements to provide for one-year extensions of the maturities and a reduction in interest rate to 12% per annum payable at the new maturity dates of February 10, 2024, February 23, 2024 and March 13, 2024.

The principal balance plus accrued interest will be increased by 10% to US\$626,725 and the amendment will provide for interim payments of principal as follows: US\$35,000 on May 1, 2023; US\$20,000 on May 11, 2023; US\$10,000 on May 24, 2023; US\$20,000 on July 10, 2023; US\$10,000 on July 23, 2023; and US\$50,000 on August 31, 2023.

As part of the amendments described above, the lenders will be issued 3,900,000 share purchase warrants each of which entitle the holder to purchase one SVS at a price of \$0.05 per SVS and for a period of two years.

#### ***Neural Therapeutics Arrangement Agreement***

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- The Plan of Arrangement will occur under the provisions of BCBCA, whereby holders of SVS and MVS will receive an aggregate of 4,716,667 Neural Shares via a share exchange

mechanism ("**Share Exchange**"). The Agreement provides for adjustments of the Share Exchange ratio if the Vertical Peak share structure changes between the date of this Agreement and the effective date of the Transaction.

#### *August 2018 Debenture Amendments*

On February 7, 2023 the Company announced an extension of the term of the August 2018 Debentures from February 3, 2023 to March 3, 2023.

On February 23, 2023 the Company announced that it has agreed with the holders of the August 2018 Debentures to amend certain terms and to issue SVS for outstanding interest due. The amendments include: (i) extension of the maturity to August 3, 2024; (ii) reduction in interest rate from 24% back to the original semi-annual interest payments at 10% per annum in cash or 12% per annum payable in the form of shares of the Company as calculated based on the 20 day VWAP on each payment date of December 31 and June 30; (iii) issuance of 25,299,564 subordinated voting shares representing interest due to the holders of the Debentures; (iv) waiver of the conversion price adjustment provision for issuances of up to 10,125,050 multiple voting shares including 6,750,000 multiple voting shares to be issued to MJ Direct; and (v) an amendment to the restated subordination and postponement agreement with the holders of the Debentures to provide security against the Oregon property owned by the Company to support vendor and creditor obligations.

#### *MJ Direct Licencing Agreement*

On February 23, 2023, the Company announced that it has entered into an agreement with MJ Direct Inc to license a software application for direct delivery of cannabis in California ("Licencing Agreement"). The Licencing Agreement pertains to the The MJ Direct web site mjdirect.com as well as the MJDirect application has been specifically developed for direct consumer delivery. The application is available on the Apple App Store and the Google Play Store. Through the Licencing Agreement, Vertical Peak will have the exclusive right to the MJ Direct software and intellectual property for two years which will allow the Company to enter the rapidly growing direct delivery market in California.

The terms of the Licencing Agreement provide for the exclusive use of software and intellectual property by the Company for two years and a one-time licencing fee of US\$500,000 (Canadian \$675,000) the payment for which will be satisfied through the issuance of multiple voting shares of the Company at a price of \$0.10 per share resulting in the issuance of 6,750,000 multiple voting shares. The Licencing Agreement also provides the Company with an exclusive option to purchase 100% of MJ Direct for US\$1.5 million. Such option may be exercised at any date during the 2 year term of the Licencing Agreement and is payable in multiple voting shares at a price of \$.50.

#### *Settlement of Elan Capital Note*

Subsequent to the end of the second quarter; on February 10, 2023, the Company has agreed to settle the obligation to Elan Capital with a payment of US\$20,000 plus monthly payments of US\$20,000 over 11 months commencing on March 1, 2023.

#### *Amendment to the First Loan agreements*

On March 15, 2023 the Company announced that it has agreed to an amendment to the Company's First Loan agreements to provide for one-year extensions of the maturities and a reduction in interest rate to 12% per annum payable at the new maturity dates of February 10, 2024, February 23, 2024 and March 13, 2024.

The principal balance plus accrued interest will be increased by 10% to US\$626,725 and the amendment will provide for interim payments of principal as follows: US\$35,000 on May 1, 2023; US\$20,000 on May 11, 2023; US\$10,000 on May 24, 2023; US\$20,000 on July 10, 2023; US\$10,000 on July 23, 2023; and US\$50,000 on August 31, 2023.

As part of the amendments described above, the lenders will be issued 3,900,000 share purchase warrants each of which entitle the holder to purchase one SVS at a price of \$0.05 per SVS and for a period of two years maturing as follows: 600,000 Warrants on February 10, 2025; 300,000 Warrants on February 23, 2025 and 3,000,000 Warrants on March 13, 2025.

#### *Sale of Colorado Property and repayment of 2020 Debentures*

On March 9, 2023 the Company closed the sale of the Company's property in Pueblo Colorado. Under the terms of a purchase agreement the purchase price of US\$1.175 million was paid in cash with US\$850,000 directed to the collateral agent for the Company's 2020 Debentures, which will be used to repay the debentures in full. Outstanding interest due to the date of repayment will be paid in SVS of the company subject to CSE approval.

A portion of the proceeds will be directed for purposes of settlement of outstanding property taxes, commissions and transaction costs. After the settlement of the above obligation and repayment of 2020 Debentures the Company will use the remaining proceeds to satisfy current and pending obligations.

#### *Settlement of Directors Compensation*

On March 24, 2023 the Company settled obligations to the directors with the transfer of 2,853,333 Neural Therapeutic Inc. shares held by the Company to the following directors as compensation for board services:

- 1,120,000 NT shares to Adam Szweras;
- 566,667 NT shares to Brian Presement;
- 333,333 NT shares to Billy Morrison;
- 200,000 NT shares to Jason Dyck;
- 400,000 NT shares to Aaron Johnson; and
- 233,333 NT shares to Rachel Wright

## **Corporate Strategy**

Vertical Peak is focused on manufacturing high-value products and brands for its cannabis infused edibles and oil extracts product lines sold into the medical and adult recreational markets.

Vertical Peak's primary focus is the State of California, with the production and sale of branded products through its recent acquisition of the business ("**OutCo Acquisition**") of OutCo Labs Inc. ("**OutCo**"). As part of this focus, a number of Vertical Peak's non-core assets will be divested to provide funding for debt repayment and working capital. Vertical Peak also owns assets in the State of Colorado and Oregon. At times, Vertical Peak may make strategic investments on opportunistic basis in other companies, one of which is its ownership interest in Neural, and formerly an interest in Australis Capital Inc. and Pharmadrug Inc. (formerly Aura Health Inc.)

## **Business Operations**

Vertical Peak is focused on manufacturing high-value products and brands for its cannabis infused edibles and oil extracts product lines sold into the medical and adult recreational markets.

Vertical Peak's primary focus is the State of California, with the production and sale of branded products through its acquisition of the business of OutCo. As part of this focus, it is anticipated that several Vertical Peak's non-core assets will be divested to provide funding for debt repayment and working capital. Vertical Peak also owns assets in the States of Colorado and Oregon. At times, Vertical Peak may make strategic investments on an opportunistic basis in other companies, one of which is its ownership interest in Neural, and formerly an interest in Australis and Pharmadrug Inc.

## **Products and Services**

### ***State of California: Manufacturing and Retail***

Vertical Peak has adopted a focused approach to the manufacture and sale of branded products in the California market, which is expected to include additional acquisitions of, or partnerships with, existing well-run businesses in the State of California.

The California business acquired from OutCo represents a vertically integrated cannabis business through two licensed affiliates specializing in manufacturing and retailing of premium quality cannabis flower and extract products. These products include vape cartridges, tinctures, topicals, capsules and flower products which are sold under in-house brands through wholly owned retail stores and third-party dispensary clients throughout California. OutCo is an established operator in the California cannabis landscape, led by a team of innovative entrepreneurs and talented extraction and product manufacturing professionals.

With the OutCo Acquisition, Vertical Peak has taken over the management of the two licensed affiliates and acquired a 15,000 sq. ft. vertically integrated cultivation, extraction, and product manufacturing facility situated in El Cajon, California. The commercial-scale manufacturing facility in El Cajon has sufficient space and infrastructure to house an expanded marijuana infused products manufacturing operation including the production of edibles and additional indoor cultivation. The licensed affiliates also operate two (2) of the five (5) licensed dispensaries unincorporated in San Diego County, located in El Cajon and Escondido, California.

On November 24, 2021, Vertical Peak announced receipt of recreational adult use licenses for both the Escondido Premises and El Cajon Property, California dispensaries, thus satisfying the conditions of the earnout, and resulting in the issuance of 2,684,318 Vertical Peak MVS to the former owners of OutCo.

In connection with closing of the OutCo Acquisition, among other things, Vertical Peak assumed from OutCo the rights and obligations of certain management services agreements (“MSAs”) with the licensed affiliates; Downwind 27 Inc (“D27”) San Diego Natural Inc. (“SDI”) and East Hill Wellness Inc (“EHW”).

### ***State of California: MJD Licensing Agreement***

On February 22, 2023, NHLLC, a wholly owned subsidiary of Vertical Peak, entered into MJD Licensing Agreement with MJ Direct, pursuant to which MJ Direct agreed to license to Vertical Peak the rights for the exclusive use of software and intellectual property of MJ Direct's business. MJD Licensing Agreement provides for licensing by Vertical Peak the intellectual property that underlies MJ Direct's business, which includes, but is not limited to: a) MJDirect.com web site and source code, b) MJDirect Apple App iOS build version 1.0, 1.1 and 2.0 and all future versions of the iOS and Android applications that may be developed. Pursuant to MJD Licensing Agreement, MJ Direct agreed to provide online and telephone

support to the NHLLC in connection with the MJ Direct's business on a 7/24 basis. MJD Licensing Agreement covers all adult and medical use cannabis markets in the United States and shall continue in effect for a period of two years from the date of signing.

MJ Direct is an online cannabis marketplace and company that provides safe, legal access via on-demand delivery to adults across California. According to its internal data, MJ Direct is committed to creating a diverse and sustainable industry through various initiatives, including business acceleration, social equity partnerships and MJ Direct compassion programs. MJ Direct strives to educate consumers about cannabis products and sensible use while ensuring safe, dependable delivery. MJ Direct does not possess, cultivate, extract, sell, distributed or otherwise handle cannabis products that require a license, but assists in facilitating product sales by Licensed Operators by providing a platform where customers complete validation by providing a proof of identification and the orders are subsequently routed to one of MJ Direct's local, licensed retail partners based on the appropriate ZIP code where such customer resides. MJ Direct works exclusively with licensed and compliant Licensed Operators. All deliveries are made by background-checked employees of MJ Direct's partners who are Licensed Operators, who verify the customer's ID for a second time during delivery.

A key component of MJ Direct's success is its data-driven marketing strategy, which seeks to establish MJ Direct, as a singular access point across major cannabis consumer channels in California to provide consumers universalized access to cannabis products and ancillary products. MJ Direct's marketing strategy consists of several primary components, including: (i) harnessing the power of digital content through search engine optimization, email, social media, and experiential marketing to gain market visibility and acceptance; (ii) creating customized marketing roadmaps for various consumer segments and geographies across the state to establish name recognition, brand awareness, expertise, trustworthiness, and authority; and (iii) leveraging MJ Direct's industry knowledge and operations experience to capture and retain customers. Management of MJ Direct believes that this marketing strategy will yield increased brand awareness, visits to MJ Direct's proprietary e-commerce platforms, email sign-ups, customer spend, repeat business, brand loyalty and market share, revenue growth, and opportunity to monetize customers and clients across various channels. MJ Direct's intangible assets include the website, Apple App Store application, business know-how and relationships with Licensed Operators in the State of California.

The technology serves as a focal point of MJ Direct's marketing strategy, acting as a centralized portal providing consumers with convenient access to the products of Licensed Operators in the State of California, who do not otherwise have the expertise or the resources to pursue a standalone e-commerce focused channel. MJ Direct's value proposition to the consumers is to facilitate a seamless and user-friendly experience to have similar recognition among its customers to prevailing global brands in more conventional industries, such as food and beverage, ride sharing and restaurant and appointment booking platforms. MJ Direct intends to carry out its marketing strategy by implementing data and technology systems; identifying, installing, and empowering talent; and constantly refining and improving known effective tactics. By developing a comprehensive internal marketing division, MJ Direct intends to achieved cost efficiencies relative to outsourcing marketing efforts to an external agency, focused on the cannabis space in the State of California. Each component of MJ Direct's marketing platform is being designed to be tailored and customized as changes in the cannabis industry, including the market for the ancillary products as the regulations become change and the needs of customers become more complex. As a part of its marketing efforts, MJ Direct is being developed as a platform that can be scaled to accommodate continued organic growth of Vertical Peak and its Licensed Operators, as well as any future business that Vertical Peak may acquire and integrate into its operations.

### ***State of Oregon: Manufacturing***

Effective October 31, 2022, Vertical Peak's wholly owned subsidiary, NHOL, forfeited its a processor license issued by the Oregon Liquor Control Commission.

Vertical Peak continues to own the facility located in the City of La Pine, Oregon (the "**La Pine Facility**") approximately 30 miles from Bend, Oregon. The La Pine Facility is made up of 0.42 acres of land on which a 4,662 square foot manufacturing and office facility plus 540 square feet of mezzanine storage space is situated.

### ***State of Colorado: Manufacturing***

On May 19, 2020, Vertical Peak announced that it had signed a purchase agreement to acquire a 100% equity interest in Palo Verde, subject to MED and local municipal regulatory approvals. On January 28, 2021, Vertical Peak announced that MED had provided its conditional approval for Vertical Peak to complete the acquisition of Palo Verde. In early March 2021, final approvals from the county of Pueblo were received, the RMP License and the MMP License were transferred, and the acquisition of Palo Verde closed on March 12, 2021. However due to a lack of funding, the Palo Verde operation had minimal activity during 2022. On November 16, 2022 the MED license for medical marijuana expired and on March 14, 2023 the MED license for recreational marijuana expired.

As discussed above, on March 9, 2023 the Company closed the sale of the land and buildings located in Pueblo, Colorado ("**Pueblo Property**") which had been used in the Palo Verde business.

### ***Strategic Investments - Neural Therapeutics***

On August 14, 2020, Vertical Peak acquired all the outstanding securities of Neural (then PSC) in exchange for common shares of Vertical Peak on a one for one basis pursuant to the PSC Acquisition. Shareholders of Neural were issued an aggregate equivalent of 6,876,148 Vertical Peak SVS and 6,876,148 Vertical Peak Warrants. As a result of the PSC Acquisition, Vertical Peak became the sole shareholder of all the outstanding securities of Neural.

Neural is an ethnobotanical drug-discovery and development company focused on developing products and conducting research on the psychoactive cacti plants, the first being the San Pedro cactus. In February 2022 and August 2022, Neural completed the Seed Financing, following which, Vertical Peak's ownership interest in Neural was reduced to 45.6%.

On November 4, 2022, Vertical Peak announced that it had entered into the Arrangement Agreement (as amended and restated on February 24, 2023) with Neural. Following the completion of the Plan of Arrangement (if completed), Vertical Peak will own 33.6% of the issued and outstanding Neural Shares. Vertical Peak's ownership interest in Neural may be further reduced as a result of transfer of Neural Share by the Company to satisfy obligations as well as a result of Neural completing future sale of shares. (see subsequent events note)

## **Investments, Acquisitions and Divestitures**

### **Neural Therapeutics Acquisition and Financing**

On August 14, 2020, the Company acquired all the outstanding Neural Shares in exchange for SVS on a one for one basis. Shareholders of Neural were issued an aggregate of 6,876,148 SVS. As a result of the Transaction, the Company became the sole shareholder of all the outstanding securities of Neural. In addition, an aggregate of 6,876,148 common share purchase warrants of Neural were assumed by the Company on a one-for one basis for SVS purchase warrants of the Company. Each such warrant entitles



the holder thereof to acquire one Share at any time on or before the second anniversary of its issuance (with expiry dates ranging from July 16, 2022 to July 23, 2022) at an exercise price of \$1.00. In addition, 150,092 compensation options of Neural were assumed on a one-for-one basis for compensation options of the Company. Each compensation option entitles the holder to acquire one unit at an exercise price of \$0.60 at any time on or before the second anniversary of its issuance (with such dates ranging from July 16, 2022 to July 23, 2022). Each unit is comprised of one SVS and one warrant.

### **Palo Verde Acquisition**

On March 12, 2021, the Company acquired 100% of the interest in Palo Verde. Consideration for the acquisition included a nominal cash payment and the assumption of third-party debt ("**High Pita Debenture**") due to High Pita Corporation ("**High Pita**"). Pursuant to the closing of the acquisition, on March 19, 2021, the Company executed an assignment agreement with High Pita whereby, the Company assumed all indebtedness due from Palo Verde to High Pita in the aggregate amount of US\$1,884,355 together with accrued interest ("**PV Debt**"). Such PV Debt was settled with the issuance of: 2,000,000 SVS; 4,000,000 million warrants of the Company entitling the holder thereof to acquire one SVS at any time on or before the third anniversary of its issuance at an exercise price of \$1.00 per SVS; and a convertible debenture in the amount of \$250,000 which bears interest at 12% and is convertible into SVS at \$1.00 ("**High Pita Debenture**").

Further, as part of the acquisition of Palo Verde, US\$2,266,718 in outstanding rent and loans due to the Company was forgiven.

Pursuant to IFRS 3 the Company undertook an evaluation of the purchase to determine the fair purchase price for the acquisition and transaction was accounted for as a business combination in accordance with IFRS 3 – *Business Combinations*.

### **OutCo Acquisition**

On August 31, 2021, the Company acquired the business of OutCo through the purchase of substantially all the assets of the business including; control and management of all licenced entities, intellectual property, equipment and land.

Total consideration was as follows:

1. 3,623,243 special warrants. Each special warrant entitles the holder to acquire, for no additional consideration, one MVS, with each MVS carrying 10 votes per MVS and may, at the option of the holder, be exchanged, for no additional consideration, for ten (10) SVS.
2. 2,033,333 Class A Share purchase warrants ("**Class A Warrants**") each entitling the holder to acquire one SVS at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn\$0.60. The expiry date of the Class A Warrants will be accelerated if the volume weighted average price of the SVS for the 10 consecutive trading days ending on the date that is 90 days following the one-year anniversary of the closing date of the Acquisition (the "**Class A VWAP Date**") is equal to or greater than \$0.96. In such case the accelerated expiry date will be the date that is 60 days following the Class A VWAP Date.
3. 1,220,000 Class B Share purchase warrants ("**Class B Warrants**") each entitling the holder to acquire one SVS at any time on or before the 24-month anniversary of the closing of the Acquisition at an exercise price of Cdn\$1.00. The expiry date of the Class B Warrants will be accelerated if the volume weighted average price of the SVS for the 10 consecutive trading days ending on the date that is 90 days following the 18-month anniversary of the closing date of the Acquisition (the "**Class**

**B VWAP Date**") is equal to or greater than \$1.60. In such case the accelerated expiry date will be the date that is 60 days following the Class B VWAP Date.

4. Assumption of debt of approximately US\$3.25 million including:
  - a. Assumption US\$2.65 million mortgage ("**East Hill Note**") over the land acquired located at 2500 East Hill Road, Willits, California ("**Willits Property**");
  - b. Assumption of US\$375,500 in obligations due to creditors of OutCo;
  - c. Settlement of OutCo debt through the issuance of a \$268,400 convertible debenture of the Company:
    - i. The convertible debenture ("**Gainor Debenture**") has a term of 2 years and has an interest rate of 10% per annum. The debenture is convertible into SVS at any time at the option of the holder at a conversion price equal to \$0.36. On February 1, 2022 the holder of the Gainor Debenture converted \$190,000 of the Gainor Debenture leaving a remaining balance of \$78,400
    - ii. Certain promissory notes due to third parties

In connection with OutCo Acquisition, NHLLC assumed OutCo's rights and obligations under MSAs with the licenced entities D27, SDI and EHW. In connection with OutCo Acquisition, Vertical Peak also assumed certain other current liabilities of the licenced entities which are included in working capital.

5. Up to US\$3 million earnout based on both of OutCo's retail facilities obtaining recreational marijuana licenses within 18 months of closing with such amount to be satisfied through the issuance of Special Warrants, SVS or MVS at a price when such securities become issuable ("**Earnout**").

On November 24, 2021, SDI and DW27 have received adult use licenses for both Escondido Premises and El Cajone Property, thus satisfying the conditions of the Earnout, and resulting in the issuance of 2,684,318 MVS to former owners of OutCo.

Effective on March 22, 2022, the Company has terminated the MSA with EHW and is in discussions to return the Willits Property to East Hill in exchange for the termination of the assumption of the US\$2,650,000 note associated with this property. Please see section below titled "*Legal Actions*".

FMI Capital Advisory Inc. ("**FMICA**"), a financial advisory firm of which Adam Szweras (a director of the Company and Chairman of the Board) is a director, received an advisory fee in connection with the OutCo Acquisition which was satisfied through the issuance of 1,822,627 SVS. Please see section below titled "*Related Party Transactions*".

#### **Pharmadrug Inc. (formerly Aura Health Inc.)**

The Company made strategic investments into Aura Health Inc., (now Pharmadrug Inc.) ("**Aura**" or "**Pharmadrug**") which previously owned and operated medical cannabis clinics in various US states.

As of July 31, 2021, the Company held 436,606 common shares in the capital of Pharmadrug ("**Pharmadrug Shares**") (July 31, 2020 – 1,309,818 Pharmadrug Shares), of which 436,606 Pharmadrug

Shares (July 31, 2020 – 1,309,818 Pharmadrug Shares) were held in escrow, to be released on August 16, 2021.

During the year ended July 31, 2021, the Company sold 873,212 Pharmadrug Shares for net proceeds of \$69,861, recognizing a gain on disposal of \$39,298. The Company recognized an unrealized gain of \$10,915 during the year ended July 31, 2021.

On October 20, 2021, the Company received the remaining 436,606 Pharmadrug Shares from escrow which were sold on October 26, 2021, for net proceeds of \$19,323, recognizing a loss on disposal of \$6,874 during the year ended July 31, 2022.

As of April 30, 2023, the Company's ownership interest in Pharmadrug was Nil.

### **Australis Capital Inc.**

During the year ended July 31, 2021, the Company exchanged its note receivable of Green Therapeutics LLC for common shares in the capital of Australis Capital Inc. ("**AUSA Shares**") as per the agreement. Of the total consideration of 9,267,341 AUSA Shares, 1,792,724 were held in escrow until August 2021 and were subsequently received by the Company.

Of the net holdings of 7,474,617 of AUSA Shares, 937,500 AUSA Shares were sold via private sale and 1,941,500 AUSA Shares were exchange traded for total net consideration to the Company of \$849,081 during the year ended July 31, 2021.

The Company received 1,792,724 additional AUSA Shares on October 5, 2021, which were valued at \$358,545. For the year ended July 31, 2022, these AUSA Shares were recorded as gain on settlement of fair value profit to loss investment of \$358,545.

During the year ended July 31, 2022, the Company sold 6,388,341 AUSA Shares for net proceeds of \$1,155,198 and a loss on fair value profit and loss on investment of \$479,780 and a net gain on disposal of \$112,446 and a realized foreign exchange loss of \$14,138. As of July 31, 2022, the Company held Nil AUSA Shares.

As of April 30, 2023, the Company held Nil AUSA Shares.

### **Financing and Capital Markets Activities**

Financing and capital market activities which have been completed from the quarter ended January 31, 2022 to April 30, 2023 include the following:

#### **2020 Debenture**

Subsequent to the end of the second quarter, the 2020 Debenture was repaid from the proceeds of the sale of the Colorado Property. (see subsequent events note)

#### **High Pita Debenture partial settlement**

On June 13, 2022, as part of the Second Loan Facility, the holder of the High Pita Debenture agreed to settle \$63,300 of the outstanding principal with US\$50,000 promissory note. After this settlement the remaining balance of the High Pita Debenture is \$186,700.

For the nine months ended April 30, 2023, the Company recorded accretion expense on the convertible debentures of \$11,213 (January 31, 2022 - \$15,942) which was included within finance costs of which \$11,112 (January 31, 2022 - \$25,890) was outstanding in accounts payable and accrued liabilities (see Note 8).

As at April 30, 2023, the outstanding balance of the High Pita Debenture was \$185,428 (July 31, 2022 - \$186,114). The Company is currently in discussions to extend the term of the High Pita Debentures.

#### **ASC Lease Income Debenture**

On September 7, 2021, the Company settled the lease arrangement with ASC Lease Income LLC by issuing \$50,464 convertible debenture ("**ASC Debenture**").

The ASC Debenture was issued for a three-year period with a maturity date of September 7, 2024, bearing 12% interest compounded annually, payable in arrears. The ASC Debenture and are convertible into SVS at a conversion price of \$0.36 per SVS.

For the nine months ended April 30, 2023, the Company recorded accretion expense on the convertible debentures of \$2,948 (January 31, 2022- \$2,348) which was included within finance costs. The cumulative accretion expense included in accounts payable and accrued liabilities is \$8,478 (July 31, 2022 - \$5,425) was (see Note 8).

As at April 30, 2023, the outstanding balance of the ASC Debenture of \$41,687 (July 31, 2022 - \$41,791).

#### **Gainor Debenture**

In connection with OutCo Acquisition, the Company assumed a loan from Craig Gainor in the amount of \$268,400. On August 31, 2021, the Company converted the Gainor debt into Gainor Debenture with the face value of \$268,400 (the "**Gainor Debenture**"). The Gainor Debenture was issued for a two-year period with a maturity date of the earlier of August 31, 2023 or the sale of an asset of the Company. The Gainor Debenture bears semi-annual interest at 10% per annum and is convertible into SVS at a conversion price of \$0.36 per SVS.

On March 1, 2022, the holder of the Gainor Debenture agreed to convert \$190,000 into SVS at a revised conversion price of \$0.065 representing 2,923,077 SVS, as approved by the CSE. The remaining principal balance of the Gainor Debenture is \$78,400.

For the nine months ended April 30, 2023, the Company recorded accretion expense on the convertible debentures of \$14,009 (January 31, 2022 - \$11,676), of which \$3,952 (January 31, 2022 - \$11,251) was included in accounts payable and accrued liabilities. The cumulative accretion expense included in accounts payable and accrued liabilities is \$20,600 (July 31, 2022 - \$16,648) was (see Note 8).

As at April 30, 2023, the outstanding balance of the Gainor Debenture was \$63,672 (July 31, 2022 - 53,624).

#### **East Hill Financial Note**

On August 31, 2021, in connection with OutCo Acquisition the Company agreed to assume East Hill Note associated with the Willits Property. The East Hill Note has a face value of \$3,343,505 (US\$2,650,000).

The East Hill Note was due January 1, 2022. The Company is currently a party to a legal dispute with, East Hill Financial Inc., the bearer of the East Hill Note, in connection with the matters relating to East Hill Note and previously terminated EHW MSA. Please see section below titled "*Legal Actions*".

### **August 2018 Debenture Amendments**

In February 2022, the holders of the convertible debentures issued by the Company in August 2018 ("**August 2018 Debentures**") agreed to amend the terms of the debentures as follows: i) Consent for the Company to effect certain transactions (including the NT Financing, as hereinafter defined) which would result in a reduction of interest that Vertical Peak owns in Neural; ii) Consent to enter into certain loan agreements to a maximum amount of US\$500,000, which formed a the First Loan Facility (as hereinafter defined) and Second Loan Facility as hereinafter defined); and iii) provide for a partial repayment of a portion of the August 2018 Debentures from the proceeds from an asset sale by the Company.

During the year ended July 31, 2022, the August 2018 Debentures holders have converted or repaid a combined total of \$425,042 (2021 - \$100,000) principal amount of convertible debentures resulting in the issuance of 5,250,850 (2021 -100,000) SVS and the transfer of 2,000,000 Neural Shares (2021 - Nil).

On August 4, 2022, the holders of the August 2018 Debentures agreed to amend the terms of the debentures as follows: (i) Extend the term of the August 2018 Debentures to February 3, 2023; and (ii) increase the interest due to 24% per annum, one half of which, shall be added to the principal amount increasing the principal outstanding balance from \$4,205,073.25 to \$4,458,068. The remaining half of the interest due to maturity, representing \$252,995 shall be payable, prior to maturity, in SVS a price equal to the 20-day volume weighted average price as approved by the CSE. In the event that the CSE does not approve such issuance of such SVS prior to maturity, the Company shall pay interest in cash at maturity.

As at April 30, 2023 the Company has recorded the present value of the debentures of \$3,595,216 and a gain on settlement debt of \$517,861. Additional interest expense of \$252,995 was recorded with a corresponding increase in accounts payables (see Note 8).

For the nine months ended April 30, 2023, the Company had accretion expense on the August 2018 Debentures of \$890,373 (January 31, 2022 - \$317,151) and recorded a fair value loss on the change of the derivative liability of \$ (January 31, 2022 - \$1,026,879 loss).

During the nine months ended April 30, 2023, the August 2018 Debentures holders have converted or repaid a combined total of \$150,000 (January 31, 2022 - \$425,042) principal amount of convertible debentures resulting in the issuance of (January 31, 2022 - 1,895,935) SVS and the transfer of nil Neural Shares (January 31, 2022 - Nil ).

At April 30, 2023, the outstanding balance of the August 2018 Convertible Debentures was \$3,956,496 and the derivative liability related to this convertible debenture was \$4,093. On conversions, the Company reduced the present value of the liability by \$150,000 (April 30, 2023 - \$125,069) and derecognized \$152 (July 31, 2022 - \$17,898) of the corresponding derivative liability.

Subsequent to the ends of the second quarter the Company announced an extension of the maturity and additional amendments to the terms of the August 2018 Debentures. (See subsequent events note)

### **Elan Capital Agreement**

On February 10, 2023, the Company has agreed to settle the obligation to Elan Capital with a payment of US\$20,000 plus monthly payments of US\$20,000 over 11 months commencing on March 1, 2023.

### **Conversion of August 2019 Debentures**

On February 16, 2022, the Company converted all of the secured convertible debentures issued in August 2019 ("**August 2019 Debentures**") issue representing principal balance of \$1,807,000 plus interest of \$20,941. August 2019 Debentures were converted into SVS at a revised conversion price of \$0.06 per SVS, resulting in the issuance of pursuant to such conversion of 30,465,690 SVS.

As at April 30, 2023, the outstanding balance of the August 2019 Convertible Debenture was \$nil (July 31, 2022 - \$nil).

### **NT Financing**

On February 2, 2022, the Company completed an equity financing into Neural for gross proceeds of \$750,000 by way of a non-brokered private placement (the "**NT Financing**") of units. Pursuant to the NT Financing, Neural issued 9,999,990 Units at a price of \$0.075 per unit. Each unit is comprised of one Neural Share and one-half of one common share purchase warrant (each whole warrant, a "**Neural Warrant**"), with each Neural Warrant exercisable for one Neural Share at an exercise price of \$0.10 per Neural Share for a period ending on the earlier of: (i) 36 months from issuance; and (ii) 24 months following the time Neural Therapeutics completes a going public transaction.

Upon closing of the NT Financing, Foundation Markets Inc. received: \$43,710 from the proceeds of the financing and 575,800 broker warrants of Neural, each exercisable into one Neural Share for a period of 2 years from the issuance at a price of at \$0.075). Upon closing of the NT Financing, FMICA received: \$56,500 for payment of outstanding work fees and 1,833,333 Neural Shares representing the equity fee plus \$17,875 from the proceeds of the NT Financing representing HST on the Equity Fee, as per the terms of the agreement entered into between Neural and FMICA. Foundation Markets Inc. and FMICA are considered related parties to the Company. Please see section below titled "*Related Party Transactions*".

Concurrently with completion of the NT Financing, Neural issued 1,250,000 Neural Shares in settlement of \$93,750 in obligations to third parties. In addition, concurrently with completion of the NT Financing, Vertical Peak transferred 5,600,000 Neural Shares to settle approximately \$420,000 of Vertical Peak. Of these, 2,666,667 Neural Shares were issued to certain non-arm's length parties ("**Insiders**") to settle debt obligations of Vertical Peak to such Insiders. Please see section below titled "*Related Party Transactions*".

On August 3, 2022 Neural completed an additional \$82,000 financing with the issuance of 1,093,333 units. Each unit was comprised of one Neural Share and one-half of one Neural Warrant. Neural paid aggregate finders' fees equal to \$1,560 to such finders and issued 20,800 broker warrants, each being exercisable for one Unit at a price of \$0.075. Pursuant to this financing, 133,333 units were issued to Robert Wilson, the CFO, representing a \$10,000 contribution to the financing. Please see section below titled "*Related Party Transactions*".

In accordance with the terms of the NT Financing completed in February 2022, if NT had not completed a going public transaction within 6 months of the closing, Neural Therapeutics is required to issue additional shares representing 10% of total shares issued in NT Financing. Consequently, because NT did not complete a going public transaction, on August 3, 2022 an additional 999,990 Neural Shares to the subscribers of the first tranche of NT Financing on the basis of 1 additional Neural Share for each 10 unit

issued pursuant to NT Financing (10% of 9,999,900 units issued on February 2, 2022). The valuation of these shares is recorded as \$0.075 in the capital account of the Company.

### **First Loan Facility**

On March 14, 2022, the Company closed a one-year, secured, loan facility in the principal amount of US\$472,500 ("**First Loan Facility**"). The First Loan Facility was comprised of three tranches, with the first two tranches representing a principal amount of US\$172,500. Interest on the first two tranches of the First Loan Facility, during the initial four-month period of US\$22,500, is deducted from the proceeds at closing. In the event that the first two tranches are not repaid within four months, an additional interest change of US\$17,250 will be due at maturity in one year. The third tranche of the First Loan Facility represents a principal amount of US\$300,000 which accrued interest of US\$45,000 for the initial four-month period with additional interest payments of US\$35,000 if the loan repaid after four-months to the date of maturity in one-year. Notwithstanding the above terms, the Loan Facility is due and payable upon an asset sale by the Company.

As part of the First Loan Facility, the lenders were issued 2,250,000 share purchase warrants each of which entitle the holder to purchase one SVS at a price of \$0.075 per SVS and for a period of two years.

Subsequent to April 30, 2023 the First Loan Facility was amended. (See enclosed subsequent event note)

### **Second Loan Facility**

On June 13, 2022 the Company closed a one-year, secured, loan facility in the principal amount of US\$400,000 ("**Second Loan Facility**"). The Second Loan Facility is comprised of three tranches, representing a total principal amount of US\$400,000 which has a term of one year and will accrue interest at 26% per annum.

Of the principal amount, US\$326,115 has been advanced to the Company and the remaining US\$73,884 represents settlement of other obligations. Such other obligations include US\$50,000 portion of the High Pita Debenture and US\$23,884 in payables to a related party. Please see section below titled "*Related Party Transactions*".

The Second Loan Facility is due and payable at the earlier of one year or upon an asset sale by the Company.

As part of the Second Loan Facility, the lenders were granted 2,000,000 share purchase warrants each exercisable into one SVS at a price of \$0.05 per SVS for a period of two years from the date of issuance.

### **December 2022 Investment**

On December 28, 2022 the Company announced that it has secured two investments if approximately US\$250,000. The first investment of US\$100,000 (\$135,000) represented a purchase of 1,350,000 multiple voting shares of the Company at a price of \$0.10 per share.

The second investment represents a contribution of US\$150,000 (\$202,500) of inventory to D27 in exchange for an unsecured note payable which will be settled with the issuance of approximately 2,025,000 MVS of the Company at a price of \$0.10 per share. As of the date hereof the note payable has not been converted.

### **FMICA Loan**

On January 27, 2023 the Company entered into a loan agreement with FMICA in the amount of \$74,000 ("FMICA Loan"). The FMICA Loan shall be repaid the earlier of: the Company receiving a refund with respect to FMICA harmonized sales tax (HST) payable by Canada Revenue Agency; or the Borrower raising further capital, either by way of equity subscription or debt.

### **Claims and Settlements**

#### **Payable Settlements**

On November 25, 2021, the Company entered into settlement agreements with trade creditors representing \$119,471 to convert such amounts owed to 544,242 SVS in settlement of in these obligations. The Company recorded a gain on settlement of \$45,998 associated with this settlement.

On February 16, 2022, the Company settled outstanding loans and payables representing \$1,962,605 in exchange for the conversion into SVS. Pursuant to the payables conversion, Vertical Peak issued 32,710,087 SVS, of which 22,433,569 SVS were issued to certain non-arm's length parties to settle \$1,346,014 of obligations (please see section below titled "*Related Party Transactions*"). The Company recorded a loss on settlement of \$163,551 associated with this settlement.

On April 29, 2022, the Company settled outstanding loans and payables representing \$434,524 in exchange for the conversion into SVS. Pursuant to the payables conversion, Vertical Peak issued 8,301,637 SVS. The Company recorded a gain on settlement of \$102,459 associated with this settlement.

On August 30, 2022, the Company settled outstanding loans and payables representing \$84,392 in exchange for 1,687,841 SVS.

On September 13, 2022, the Company's subsidiary Neural Therapeutics settled outstanding payables representing \$37,500 in exchange for the issuance of 500,000 NT shares.

#### **August 2019 Debenture Conversion**

On February 16, 2022 holders of all the Company's 9% Subordinated Secured Convertible Debentures approved an amendment to the conversion price from \$4.00 to \$0.06 and in connection therewith agreed to convert such indebtedness into SVS. Pursuant to the above, the Company issued 30,465,690 SVS for settlement of the principal balance of \$1,807,000 plus accrued interest to the date of conversion of \$20,941.

#### **Neural Debt settlement**

Concurrently with completion of the NT Financing, Vertical Peak completed an in-kind debt settlement pursuant to which Vertical Peak transferred 5,600,000 Neural Shares to settle approximately \$420,000 of Vertical Peak liabilities. Pursuant to this transfer, approximately 2,666,667 Neural Shares were transferred to certain non-arm's length parties to settle debt obligations of Vertical Peak to such parties. Please see section below titled "*Related Party Transactions*". In addition, FMICA received advisory fees and fees associated the financing of NT which were satisfied through payment from the proceeds of the NT Financing and the issuance of Neural Shares. Please see section below titled "*Related Party Transactions*".

#### **East Hill Note**

On August 31, 2021, in connection with OutCo Acquisition, the Company assumed East Hill Note, which is considered non-interest bearing and was due January 1, 2022.



The Willits Property includes 60-acres of land including a 10,000 square foot portion of which is licensed to operate, cultivate and harvest marijuana held by East Hill. Additionally, in connection with OutCo Acquisition, the Company assumed a OutCo's rights and obligations under EHW MSA, which was terminated on March 22, 2022 by the Company.

The Company is in litigation with East Hill Financial with respect to the matters relating to East Hill Note and the terminated EHW MSA. Please see section below titled "*Legal Actions*".

## **Legal Actions**

### ***Pasa Verde Equipment Lease***

On May 21, 2021 a legal action was filed against a subsidiary of the Company, Pasa Verde LLC ("**Pasa Verde**") as well as the former owners of Pasa Verde LLC in the Superior Court of California ("**LLI Action**") by Leasing Innovations Incorporated for US\$336,008 representing US\$435,849 in past due rent, US\$22,692 in late fees; US\$59,467 in interest minus US\$200,000 from the sale of equipment.

On September 2, 2021, a cross complaint was filed against the Company claiming breach of its indemnification of the former owner of Pasa Verde ("**Pasa Verde Cross Action**"). As of the date hereof, each of LLI Action and Pasa Verde Cross Action remain ongoing.

### ***East Hill Note***

In connection with OutCo Acquisition, the Company has assumed various obligations of OutCo including the East Hill Note, in exchange for ownership of the Willits Property. On July 29, 2022, a legal action was filed against OutCo and its subsidiaries, the Company and a number of its subsidiaries and officers in the Superior Court of California by East Hill Financial Inc. ("**East Hill Action**"), which pertains to the assumption of East Hill Note in connection with the OutCo Acquisition. As of the date hereof, East Hill Action remains ongoing.

The complaint for damages includes: breach of contract for not honouring the terms of the assumption of the East Hill Properties business, fraud for not paying the sums borrowed by East Hill Properties, not operating East Hill in a way to maintain its operations and representing that payments would be made. The legal action includes an injunction against sale the property and foreclosure against the property.

### ***Assumed liability associated with OutCo litigation***

In connection with OutCo Acquisition, the Company has assumed various obligations of OutCo including a secured promissory note due issued by OutCo to Elan Capital, which was in litigation. Upon closing of OutCo Acquisition, the Company entered into a conditional settlement and general release with Elan Capital dated August 31, 2021. Under the conditional settlement and general release the Company has assumed the obligations due to Elan Capital which also provides for the repayment of the obligation in the form of cannabis product. The conditions of settlement and release of security are the full repayment of US\$300,000 on or before March 1, 2022 and the ongoing payment of \$2,800 per month.

As of July 31, 2022, the Company has made cash and product repayments of US\$114,176.90 which have reduced the principal balance due to Elan to \$212,000.

Subsequent to the end of the second quarter; on February 10, 2023, the Company has agreed to settle the obligation to Elan Capital with a payment of US\$20,000 plus monthly payments of US\$20,000 over 11 months commencing on March 1, 2023.

## Selected Annual and Quarterly Information

Summarized selected financial information is as follows:

	Twelve months ended July 31, 2022	Twelve months ended July 31, 2021	Twelve months ended July 31, 2020
Revenue	6,248,499	96,067	11,052
Cost of goods sold	5,001,783	75,723	13,316
Gross Profit / (Deficit)	1,246,716	20,344	(2,764)
Rental income	-	-	26,924
Operating expenses	10,845,709	5,181,375	7,380,556
Other (income)/expenses	9,623,326	6,391,985	3,342,983
Loss before income taxes	(19,222,319)	(11,553,016)	(10,699,379)
Income (loss) from discontinued operations	19,037	9,771,214	(11,323,631)
Net loss and comprehensive loss	(19,213,626)	(1,849,618)	(21,922,661)
Loss per share (basic)	(0.219)	(0.041)	(1.340)
Loss per share (diluted)	(0.219)	(0.041)	(1.340)

Summarized selected quarterly financial information as follows:

	Three months ended April 30, 2023	Three months ended April 30, 2022	Nine months ended April 30, 2023	Nine months ended April 30, 2022
Revenue	2,376,400	1,294,792	6,695,541	4,668,401
Cost of goods sold	588,547	274,777	3,716,207	2,842,987
Gross Profit	1,787,853	1,020,014	2,979,334	1,825,414
Operating expenses	3,084,219	1,963,875	6,780,901	7,048,325
Other (income)/expenses	(142,864)	4,100,684	1,267,326	-
Loss before income taxes and discontinued operations	(1,153,502)	(5,044,544)	(5,068,893)	(8,258,913)
Net loss and comprehensive loss	(1,135,194)	(4,383,251)	(4,715,529)	(7,679,337)
Income/(Loss) per share (basic & diluted)	(0.01)	0.16	(0.04)	(0.23)

Summarized selected balance sheet items as follows:

	April 30, 2023	July 31, 2022
Current Assets	4,751,191	4,647,741
Total Assets	12,504,156	12,626,195
Total Liabilities	22,720,008	19,028,607
Shareholder's Equity/(Deficit)	(10,013,235)	(6,590,205)

**Selected financial information for the current and previous quarters as follows:**

Quarter ended	Revenue	Income (loss) before discontinued operations	Net income (loss) and comprehensive income (loss)	Net income (loss) per share (basic)	Net income (loss) per share (diluted)
30-Apr-23	2,376,400	(1,153,502)	(1,135,194)	(0.01)	(0.01)
31-Jan-23	2,250,522	(1,788,969)	(1,762,045)	(0.01)	(0.01)
31-Oct-22	2,068,619	(2,126,422)	(1,818,290)	(0.02)	(0.02)
31-Jul-22	1,580,098	(10,933,407)	(11,217,826)	(0.10)	(0.10)
30-Apr-22	1,294,791	(5,059,544)	(4,383,189)	(0.05)	(0.05)
31-Jan-22	2,061,849	(1,681,590)	(2,162,208)	(0.04)	(0.04)
31-Oct-21	1,311,761	(1,547,778)	(1,469,440)	(0.03)	(0.03)
31-Jul-21	45,314	9,427,262	9,427,262	0.25	0.25

\*\*\* Adjusted quarterly data reflecting East Hill Wellness as a discontinued operations

## DISCUSSION OF QUARTERLY RESULTS

### Sales Revenue and Gross Profit

For the three months ended April 30, 2023, the Company recognized sales of \$2.25 million compared with \$2.1 million during the corresponding three-month period of 2022. For the nine months ended April 30, 2023, the Company recognized sales of \$4.3 million compared with \$3.4 million during the corresponding six-month period of 2022.

This increase in revenues during the three and nine month periods was a result of suppressed volume of cannabis produced during the comparable period of 2022 due to the temporary closure of the grow rooms for maintenance. The lower level of production in the comparable period led to lower retail sales.

For the three and nine months ended April 30, 2023, the Company achieved a gross margin of 21% and 28% respectively. This gross margin compares to 18% and 24% in the corresponding three and nine month periods of last year. The increase in gross margin during the three and nine month periods ended April 30, 2023 is primarily due to improved production of cannabis in the current year and losses experienced in the corresponding period of 2022 associated with the Company's outdoor grow in Mendicino CA. The Company's outdoor grow was discontinued in Q3 2022 with the cancellation of the East Hill Wellness MSA.

### Operating Expenses and Other Expenses

Other revenues and expenses for the three and nine months ended April 30, 2023 and for the comparable period of fiscal 2022 are as follows:

	Three months ended April 30, 2023	Three months ended April 30, 2022	Nine months ended April 30, 2023	Nine months ended April 30, 2022
Operating expenses	3,084,219	1,963,875	6,780,901	7,048,325
Income tax expense	-	15,000	-	45,000
Other (income)/expenses	(142,864)	4,100,684	1,267,326	3,036,002
Net loss	(1,153,502)	(5,059,544)	(5,068,893)	(8,303,913)
Net comprehensive loss	(1,135,194)	(4,383,251)	(4,715,529)	(7,679,337)
Loss per share (basic & diluted)	(0.01)	0.16	(0.04)	(0.23)

Operating expenses during the three months ended April 30, 2023, were \$1.4 million compared with \$3.2 million during the corresponding period of the prior year. This decline was primarily due to the following:

- \$829,354 reduction in salaries, benefits and consulting fees;
- \$547,860 reduction in share based payments due to the lower share value of RSU issuances;
- and
- \$362,883 lower general and administrative expenses.

Operating expenses during the nine months ended April 30, 2023, were \$3.7 million compared with \$5 million during the corresponding period of the prior year. This decline was primarily due to the following:

- \$547,860 reduction in share based payments due to the lower share value of RSU issuances;
- \$423,168 reduction in acquisition related expenses; and
- \$245,652 reduction in salaries, benefits and consulting fees

Other expenses during the three months ended April 30, 2023, represented \$895,080 compared with income of \$1,174,373 during the corresponding period of the previous year. The increase in other expenses was primarily due higher finance costs and gains experienced during the comparable period which were not realized in the current period as follows:

- \$855,536 increase in finance costs due to the additional First and Second Loan Facilities, higher interest on the 2018 Debentures and accretion changes associated with the 2018 Debentures;
- \$386,585 gain on investments in the corresponding period of 2022;
- \$433,041 in other income associated with debt settlement in the corresponding period of 2022; and
- \$328,869 higher gain on the fair value of derivative liability in the corresponding period of 2022.

Other expenses during the nine months ended April 30, 2023, represented total expenses of \$1.4 million compared with total income of \$1.1 million during the corresponding period of fiscal 2022. The increase in other expenses was primarily due to:

- \$1,454,091 higher finance costs due to the additional First and Second Loan Facilities as well as accretion changes associated with the 2018 Debentures;
- \$1,030,641 lower gain in value of the derivative liability compared to the comparable period of fiscal 2022; and
- \$434,132 decline other income in the corresponding period of 2022 associated with debt settlement;

The increase in other income/(expenses) during the nine month period was partially offset by the following:

- A gain on the extinguishment of debt of \$568,497 reflecting the extension of the 2018 convertible debenture under new terms; and
- \$201,011 loss on sale of investment in the corresponding period of fiscal 2022:

**Breakdown of general and administrative as is as follows:**

	Nine months ended April 30, 2023	Nine months ended April 30, 2022
	\$	\$
Bad Debt	20,731	-
Bank charges	66,312	101,976
Dues and subscriptions	102,287	-
Insurance	111,186	195,486
Listing and investor relations	220,760	92,025
Office and administrative	122,415	474,881
Marketing	140,736	104,191
Permit and licenses	29,838	251,719
Property taxes and penalties on excise taxes	784,028	365,194
Repairs and maintenance	57,309	79,292
Security	294,998	142,377
Supplies, maintenance and utilities	390,073	26,334
Transportation	19,055	-
Travel	19,528	46,039
<b>Total</b>	<b>2,379,256</b>	<b>1,879,514</b>

General and administrative expenses during the nine months ended April 30, 2023, were \$1,141,486 compared with \$1,221,955 during the corresponding period of the prior year. This decline was due to lower marketing, insurance, licence costs and property taxes. This was offset by higher IR fees, bank changes, office supplies and maintenance costs.

**Liquidity risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The ability of the Company to continue as a going concern is dependent on its ability to obtain funding, manage cash flows, restructure borrowings and recover funds loaned to borrowers that have currently been provided against or recover collateral that secured those loans. There is significant uncertainty as to whether the Company will be able to continue as a going concern and therefore, whether it will continue its normal business activities and realize its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. These financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

In the short term, the continued operations of the Company may be dependent upon its ability to obtain additional financing. Without this additional financing, the Company may be unable to meet its obligations as they come due. There can be no certainty that the Company can obtain these funds, in which case any investment in the Company may be lost.

As at April 30, 2023, the Company had working capital deficit of \$16,711,557 (July 31, 2022- \$12,157,392 Deficit), current assets of \$4,148,773 (July 31, 2022 - \$4,647,741) and current liabilities of \$20,860,330 (July 31, 2022 - \$16,805,133).

### **Cash Flow Operating activities**

Net cash used in operating activities during the nine months ended April 30, 2023 totaled \$160,542 compared to cash used of \$744,828 in the nine months ending January 31, 2022. This decrease in net cash used in operating activities was primarily due the following:

- \$1,269,777 higher accounts payable due to the inclusion of maturing debt obligations and higher excise taxes; and
- \$1,272,595 higher finance costs and accretion expenses incurred during the period.

### ***Investing activities***

The net cash generated from investing activities totaled \$nil the nine months ended April 30, 2023, compared to net cash generated of \$1,258,358 in the nine months ending January 31, 2022. The decline in cash inflow was due primarily to the absence of cash generated in the corresponding period including; proceeds from an investment in AUSA Shares sold in the period of \$1,066,214; and cash acquired of \$192,414 when the Company acquired the business of OutCo on August 31, 2021.

### ***Financing activities***

During the nine months ended April 30, 2023, net cash consumed in financing activities totaled \$83,760 compared to net cash consumed of \$349,470 in the corresponding period in 2022. The decline was primarily due to cash generated from the sale of notes and MVS as well as a private placement by the Company's subsidiary Neural.

### **Foreign currency exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets and liabilities that are denominated in foreign currencies and thus is exposed to the financial risk fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted the Company net loss by \$430,693 (July 31, 2022 - \$2,112,000) as a result of the Company's exposure to currency exchange rate fluctuations.

### **Interest rate risk**

Interest rate risk is the potential for financial loss arising from changes in interest rates. The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt. The Company does not have any variable interest-bearing financial liabilities.

## Concentration risk

During the three and nine months ended April 30, 2023 and January 31, 2022, there were no significant concentration risk from any single supplier or customer.

## Related parties and key management.

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing, and controlling the activities of an entity, directly or indirectly.

The following is a summary of the related party transactions, including the key management compensation for the nine month periods ending April 30, 2023 and for the year ended July 31, 2022:

- a. Incurred professional fees of \$0 (2022 - \$21,000) from Branson Corporate Services ("**BCS**"). BCS is a company in which Adam Szweras and his spouse hold a 39% ownership interest. As at April 30, 2023, \$Nil (July 31, 2022 - \$0) was due to BCS. On February 16, 2022, the Company settled the full amount of the outstanding balance, \$94,673, with BSC and has discontinued its contract with this vendor.
- b. Incurred fees of \$30,000 (2022 - \$522,908) from FMICA. FMICA is a subsidiary of Foundation Financial Holdings Corp. ("**FFHC**"), an entity of which Adam Szweras is a director and chairman. On February 16, 2022, the Company settled \$288,869 of the outstanding balance through the issuance of 4,814,483 SVS. As at April 30, 2023, \$81,499 (July 31, 2022 - \$90,550) was due to FMICA.

Included in the fees of \$522,908 during fiscal 2022 is advisory fee of \$255,168 in connection with the acquisition of OutCo which was satisfied on September 10, 2021 through the issuance of 1,822,627 SVS.

On December 17, 2021, the Company entered into a financial advisory agreement with FMICA related to services provided to Neural ("**NT-FMICA Agreement**"), which was at the time a wholly-owned subsidiary of the Company's. A work fee of \$10,000 per month is payable by Neural Therapeutics Inc. under the agreement commencing on September 1, 2021. ("**Work Fee**"). In addition, under the NT-FMICA Agreement, FMICA shall earn equity in Neural upon completion of a financing plus an additional equity interest upon completion of the listing of Neural Shares on an exchange. ("**Equity Fee**").

On December 17, 2021, the Company entered into a financing engagement agreement with Foundation Markets Inc. ("**FMI Agreement**"), a company an entity of which Adam Szweras is a director and chairman, related to services provided to Neural. This agreement provides for a finder's fees associated with the NT financing ("**Finder's Fee**").

The Work Fee and Equity Fee due to FMICA as well as the Finder's Fee due to Foundation Markets were satisfied with the issuance of shares and warrants in Neural Therapeutics and with proceeds from the Neural Therapeutics financing. Upon closing of the NT Financing on February 3, 2022, Foundation Markets Inc. received: \$43,710 from the proceeds of the financing and 575,800 Broker

Warrants in Neural. Upon closing of the NT Financing, FMICA received: \$56,500 for payment of outstanding Work Fees and 1,833,333 Neural Shares representing the first portion of the Equity Fee plus \$17,875 from the proceeds of the NT Financing representing HST on the Equity Fee.

As part of a subsequent financing for NT on August 3, 2022, Foundation Markets was issued 20,800 broker warrants in Neural. Each broker warrant entitled the holder to purchase one Unit in Neural at a price of \$0.075 for a period of 24 months from the date of issuance.

On January 27, 2023 the Company entered into a loan agreement with FMICA in the amount of \$74,000 ("FMICA Loan"). The FMICA Loan shall be repaid the earlier of: the Company receiving a refund with respect to FMICA harmonized sales tax (HST) payable by Canada Revenue Agency; or the Borrower raising further capital, either by way of equity subscription or debt.

- c. Incurred marketing expenses of \$Nil (2022 - \$Nil) and share-based payments of \$Nil (2021 - \$Nil) from Plexus Cybermedia Ltd. ("**Plexus**"), a company in which a director, Brian Presement, has a 33% ownership interest and is director. As at April 30, 2023, \$Nil (April 30, 2022 - \$Nil) was due to Plexus.
- d. Incurred expenses of \$315 (2022 - \$1,563) from Unite Communications Ltd. ("**Unite**"), a company in which a director, Brian Presement, has a 100% ownership interest. As at April 30, 2023, \$6470 (July 31, 2022 - \$6,013) was due to Unite.
- e. Incurred professional fees of \$39,469 (2022 - \$192,434) from Fogler, Rubinoff, LLP ("**Foglers**"), a law firm in which a director, Adam Szweras, is counsel. As at April 30, 2023, \$187,539 (July 31, 2022 - \$121,275) was due from Foglers which includes billed and unbilled amounts.
- f. Included in professional fees of US\$3,802 (2022 – USD \$5,247) fees charged from Johnson, Rovella, Retterer, Rosenthal & Gilles LLP ("**JRG**"), a law firm in which a director, Aaron Johnson, is a partner. As at April 30, 2023, USD \$9,101 (July 31, 2022 – USD \$5,299) was due to JRG.
- g. During the nine months ended April 30, 2023, incurred management compensation to key management and directors of \$283,458 (2022 - \$847,412). Please see below for the RSUs issued to the key management and directors.

As at April 30, 2023, \$161,593 (July 31, 2022 - \$397,662) was owed to officers of the Company related to compensation. On February 16, 2022, the Company settled \$1,071,065 of the outstanding compensation payable with the issuance of 17,851,083 SVS.

*Note: Included in the above is compensation paid to Robert Wilson for his services as CFO under a management services agreement with the Company's subsidiary NT. As of April 30, 2023, \$21,625 was due under this agreement. In addition, as part of this agreement with the CFO, NT is obliged to issue 366,667 RSUs.*

- h. During the nine months ended April 30, 2023, the Company incurred and as at April 30, 2023 maintained liabilities due to Adam Szweras and his holding company (2674775 Ontario Limited), as follows:
  - i. Incurred salary expenses of \$0 (2022 - \$0). As of April 30, 2023 salary payable was \$35,823 (July 31, 2022 - \$35,823) (see note i below);



- ii. Received loan payments of \$0 (2021 - \$0). As of April 30, 2023 loans payable of \$12,000 (July 31, 2022 - \$12,000) plus interest due of \$5,567 at a rate of 12% per annum;
- iii. Received advances of \$nil in the quarter ended April 30, 2023 (2022 - 27,301). As of April 30, 2023, \$5,207 was outstanding. (2021 - \$182,128). (see note below)
- iv. August 2019 Debenture holdings of \$250,000 were converted on February 16, 2022 with the issuance of 4,214,954 SVS. (see item u. below)
- v. 2020 Debenture holdings of \$670,000 (2021 - \$670,000). Subsequent to January 31, 2023 the Company repaid the balance due under the 2020 Debenture.
- vi. On June 13, 2022, Adam Szweras participated in US\$50,000 of the Second Loan Facility which included conversion of payables due from the Company (see note below).
- vii. March 2018 Debentures of \$0 as of July 31, 2022 (2021 - \$0). On October 30, 2020, \$16,000 held in the March 2018 Debentures was converted resulting in the issuance of 40,000 SVS.

*Note i: On February 16, 2022, the Company settled \$188,300 of the advances payable and \$275,565 of management fee/salary with Adam Szweras and his holding company with the issuance of 7,731,083 SVS.*

- i. Included in March 2018 Debentures are \$20,000 of convertible debentures issued to Brian Presement, a director of the Company. On October 30, 2020, the Company announced the completion of the conversion of the March 2018 Debentures which resulted in Brian Presement receiving 50,000 SVS.
- j. On September 30, 2020, John Durfy, CEO and Robert Wilson, CFO, through their respective holding companies, together with non-related parties entered into an agreement with a creditor to the Company to purchase US\$48,374.26 in debt from the creditor. Such agreement transfers all obligations due by the Company from the creditor to the related parties listed above. In addition, on January 10, 2022, John Durfy, Adam Szweras and Robert Wilson advanced \$42,900 in equal parts to the Company to cover certain expenses. On February 16, 2022, the Company settled both the above obligations as well as other outstanding loans payable with the issuance of 4,592,750 SVS.
- k. Included in August 2019 Debentures are \$250,000 and \$100,000 of convertible debentures issued to Adam Szweras and Brian Presement, respectively. On February 16, 2022, the Company converted the full amount of the August 2019 Debentures into SVS.

On August 17, 2020, the Company closed the acquisition of Neural. A director of the Company, Tom Kruesopon, was a partial owner of Neural. As such, the acquisition was considered to be a "related party transaction", as defined by Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions.

- m. Incurred expenses of \$26,250 USD (2022 - \$15,000) for the advisory services of Billy Morrison. As at April 30, 2023, \$32,250 USD (July 31, 2022 - \$6,000) was due to Billy Morrison.
- n. Included in 2020 Debentures were:
  - i. \$670,678 received from Adam Szweras;

- ii. \$25,000 received from a company controlled by Adam Szweras;
- iii. \$50,000 received from Brian Presement;
- iv. \$79,000 received from John Durfy, CEO;
- v. \$13,000 conversion of amount payable to John Durfy; and
- vi. \$10,000 conversion of amount payable to Robert Wilson, CFO

During the nine months ended April 30, 2023, all the above 2020 Debentures were paid off from the sale proceeds of the Company's property in Pueblo Colorado.

- o. On August 3, 2020, the Company entered into settlement agreements with trade creditors representing CAD \$1,159,936 to convert such amounts owed into 2,212,679 Units at a deemed price of \$0.50 per unit. Each unit being comprised of one SVS and one common share purchase warrant with each warrant entitling the holder to acquire one SVS at any time on or before December 31, 2020 at a price of \$1.00 per SVS. Included in these trade creditors were related parties as follows:

- i. 140,306 SVS issued to BCS;
- ii. 744,679 SVS issued to JRG;
- iii. 7,353,965 SVS issued to Plexus;
- iv. 14,206 SVS issued to Unite;
- v. 7,941 SVS issued to Brian Presement, Director;
- vi. 200,000 SVS issued to FMICA;
- vii. 382,830 SVS issued to Foglers.

- p. During the year ended July 31, 2021, the Board of Directors of the Company approved a share compensation payment for the Board of Directors and the Executive of the Company. The Board approved the issuance of 2,150,000 RSUs as follows:

- i. Aaron Johnson - 75,000 RSUs;
- ii. Brian Presement - 112,500 RSUs;
- iii. Jason Dyck - 75,000 RSUs;
- iv. Billy Morrison - 75,000 RSUs;
- v. Tom Kruesopon - 62,500 RSUs;
- vi. Adam Szweras - 500,000 RSUs;
- vii. John Durfy, 750,000 RSUs; and
- viii. Rob Wilson, 500,000 RSUs.

- q. On January 27, 2022, the Board of Directors of the Company approved a share compensation payment for the Board of Directors and the Executive of the Company. The Company issued 9,273,000 RSUs as follows:

- i. John Durfy, 2,900,000 RSUs;
- ii. Robert Wilson, 2,200,000 RSUs;
- iii. Adam Szweras, 1,743,000 RSUs;
- iv. Aaron Johnson, 429,000 RSUs;
- v. Billy Morrison, 429,000 RSUs;
- vi. Jason Dyck, 429,000 RSUs; and
- vii. Edward Abella, 500,000 RSUs.

- r. On January 20, 2023 the Company announced the compensation committee and board of directors of the Company have approved the grant of 6,625,000 RSUs and \$214,000 in deferred compensation to officers and directors of the Company. The RSUs issued by the Company were as follows:
- John Durfy, 2,837,500 RSUs;
  - Robert Wilson, 787,500 RSUs;
  - Lincoln Fish, 1,000,000 RSUs; and
  - Edward Abella, 2,000,000 RSUs.

The RSUs expire 3 years from the date of issue and are fully vested.

Given that there was insufficient availability under the Company's Option Plan and RSU Plan to settle the deferred director compensation, this obligation is expected to be settled by way of a transfer of 2,853,333 Neural Shares held by the Company as follows:

- vii. 1,120,000 NT Shares to be transferred to Adam Szweras;
  - viii. 566,667 NT Shares to be transferred to Brian Presement;
  - ix. 333,333 NT Shares to be transferred to Billy Morrison;
  - x. 200,000 NT Shares to be transferred to Jason Dyck;
  - xi. 400,000 NT Shares to be transferred to Aaron Johnson; and
  - xii. 233,333 NT Shares to be transferred to Rachel Wright.
- s. On February 3, 2022, the Company completed the NT Financing (see Note 18 (b). and Note 3). Concurrently with completion of the equity financing into Neural, the Company has completed an in-kind debt settlement ("**Debt Settlement**"), pursuant to which the Company has transferred 5,600,000 Neural Shares to settle approximately \$420,000 of the Company's liabilities. Pursuant to the Debt Settlement, approximately 2,666,667 Neural Shares were issued to certain non-arm's length parties ("**Insiders**") to settle debt obligations of the Company to such Insiders. Insider debt settlement includes: FMICA received 800,000 Neural Shares to settle \$60,000 in work fees; John Durfy, CEO received 1,733,333 Neural Shares to settle \$88,400 in accrued salary associated with Neural; and Robert Wilson, CFO received 933,333 Neural Shares to settle \$47,600 in accrued salary associated with Neural. Pursuant to *Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"), the Debt Settlement with Insiders constituted a "related party transaction" as certain transferees were considered to be related parties to The Company. The Company relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities transferred to, and the consideration received from, the Insiders did not exceed 25% of the Company's market capitalization. The Debt Settlement has been approved by all the independent directors of the Company. The Company did not file a material change report 21 days before the completion of the Debt Settlement as the participation of the Insiders had not been confirmed at that time.

On August 3, 2022 Neural completed a second tranche to the NT Financing for gross proceeds of \$82,000 by way of a non-brokered private placement of units. Pursuant to this financing, 133,333 units were issued to Robert Wilson, the CFO, representing a \$10,000 contribution to the financing. Pursuant MI 61-101, the share issuance with Insiders constituted a "related party transaction" as certain transferees were considered to be related parties to the Company. The Company relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant

to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities transferred to, and the consideration received from, the Insiders did not exceed 25% of the Company's market capitalization. The Debt Settlement has been approved by all the independent directors of the Company.

- t. On February 16, 2022, 22,433,569 SVS were issued to certain Insiders to settle \$1,346,014 of obligations of Vertical Peak Holdings to such Insiders Pursuant to the conversion of August 2019 Debenture. Further 5,900,936 SVS were be issued to certain Insiders to settle \$354,056 of Vertical Peak Holdings debenture principal and interest to such Insiders. Pursuant to MI 61-101, the Debt Settlement with Insiders constituted a "related party transaction" as certain transferees were considered to be related parties to the Company. The Company relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities transferred to, and the consideration received from, the Insiders did not exceed 25% of the Company's market capitalization. The Debt Settlement has been approved by all of the independent directors of the Company. The Company did not file a material change report 21 days before the completion of the Debt Settlement as the participation of the Insiders had not been confirmed at that time.
- u. Pursuant to the Second Loan Facility completed on June 13, 2022, US\$50,000 represents a related party transaction Adam Szweras to Adam Szweras, a non-arm's length party. Adam Szweras was issued a promissory note for US\$50,000 representing a cash contribution of US\$26,115.78 and US\$23,884.22 representing settlement of debt obligations of Vertical Peak Holdings to Adam Szweras. In addition, 250,000 Warrants have agreed to be issued to Adam Szweras once the Company's blackout period has ended. Pursuant to MI 61-101, the above transactions with Adam Szweras constituted a "related party transaction" as certain transferees were considered to be related parties to Vertical Peak Holdings. The Company relied on exemptions from the formal valuation and minority approval requirements of MI 61-101 (pursuant to subsections 5.5(a) and 5.7(a)) as the fair market value of the securities transferred to, and the consideration received from, the Insiders did not exceed 25% of the Company's market capitalization. The Debt Settlement has been approved by all of the independent directors of the Company. The Company did not file a material change report 21 days before the completion of the Debt Settlement as the participation of the Insiders had not been confirmed at that time.
- v. AB FinWright LLP, a firm which is 50% owned by Rachel Wright, a director of the Company was engaged by the Company. During the nine months ended April 30, 2023 the Company incurred \$35,690 in fees to AB FinWright LLP US\$17,050 in 2022). As at April 30, 2023, \$41,240 was due to AB Wright (\$0 at July 31, 2022)
- w. Lincoln Fish, a director of the Company up to January 20, 2023 continues to be the Director and CEO of OutCo Labs. OutCo Labs entered into an asset sale agreement with the Company dated August 31, 2021 and Mr. Fish managed the affairs of OutCo Labs as well as acting as the CEO of the business that the Company acquired pursuant to the OutCo Acquisition up to January 20, 2023. During the nine months ended April 30, 2023, Mr. Fish received a salary in the amount US\$29,468.

Austin Birch a director of the Company as of January 20, 2023, and a director and officer of OutCo Labs which entered into an asset sale agreement with the Company dated August 31, 2021. Mr. Birch manages the affairs of OutCo Labs as well as acting as an officer of and named license-holder of DW27, a business that the Company manages pursuant to the OutCo Acquisition. During the nine months ended April 30, 2023, Mr. Birch received a salary in the amount US\$14,720.

In Connection with OutCo Acquisition, OutCo Labs received 3,367,043 MVS. Further, as a result of the satisfaction of a condition of the purchase agreement an additional 2,684,318 MVS to OutCo. During the fiscal year ended July 31, 2022, 4,155,591 MVS were distributed to the shareholders of OutCo and 187 MVS were eliminated due to rounding of fractional shares. As of April 30, 2023, OutCo held 1,895,397 MVS of the Company.

As part of the purchase of the assets of OutCo, Mr. Fish assumed a US\$250,000 note which was settled on closing for 101,667 MVS of the Company.

Mr. Fish has also provided unsecured funds to the Company for working capital purposes in the amount of US\$55,679 for the nine months ended April 30, 2023 (US\$192,123.49 from the date of the closing OutCo Acquisition on August 31, 2021 to July 31, 2022.) As at April 30, 2022 US\$12,934.85 was due from the Company to Mr. Fish (US\$6,364 July 31, 2022).

- x. On March 9, 2023 the Company closed the sale of the Company's property in Pueblo Colorado. With the closing of the sale, funds were directed to the collateral agent for repayment of the Company's 2020 Debentures. A portion of the 2020 Debentures were held by management and directors which resulted in principal repayments as follows:
- i) Adam Szweras: \$670,000
  - ii) John Durfy; \$92,000
  - iii) FMICA: \$89,000
  - iv) Unite: \$50,000
  - v) Robert Wilson: \$10,000
- y. On March 24, 2023 the Company settled obligations to the directors with the transfer of 2,853,333 Neural Therapeutic Inc. shares held by the Company to the following directors as compensation for board services:
- 1,120,000 NT shares to Adam Szweras;
  - 566,667 NT shares to Brian Presement;
  - 333,333 NT shares to Billy Morrison;
  - 200,000 NT shares to Jason Dyck;
  - 400,000 NT shares to Aaron Johnson; and
  - 233,333 NT shares to Rachel Wright
- z. On February 23, 2023, the Company announced that it has entered into an agreement with MJ Direct Inc to license a software application for direct delivery of cannabis in California ("**Licensing Agreement**"). The Licencing Agreement pertains to the The MJ Direct web site mjdirect.com as well as the MJ Direct application has been specifically developed for direct consumer delivery. The application is available on the Apple App Store and the Google Play Store. Through the Licensing Agreement, Vertical Peak Holdings will have the exclusive right to the MJ Direct software and intellectual property for two years which will allow the Company to enter the rapidly growing direct delivery market in California.

The terms of the Licensing Agreement provide for the exclusive use of software and intellectual property by the Company for two years and a one-time licensing fee of US\$500,000 (Canadian \$675,000) the payment for which will be satisfied through the issuance of multiple voting shares of the Company at a price of \$0.10 per share resulting in the issuance of 6,750,000 MVS. The Licensing

Agreement also provides the Company with an exclusive option to purchase 100% of MJ Direct for US\$1.5 million. Such option may be exercised at any date during the 2 year term of the Licencing Agreement and is payable in multiple voting shares at a price of \$0.50.

On April 12, 2023, the Company signed a promissory note with Linden Road Inc. in exchange for outstanding accounting fee balance, in the total principal amount of \$83,836.92 without interest. Installments are due \$15,000 each on April 25 and May 9, 2023. The remaining balance of the principal amount shall be due and payable in 5 monthly installments, each in the amount of \$10,767.36, payable on the first of each month commencing on June 1, 2023 and ending on October 1, 2023.

### **Disclosure of outstanding share data**

As at April 30, 2023, the Company had the following securities issued and outstanding:

- 153,866,917 SVS;
- 7,544,891 MVS;
- 275,000 stock options;
- 17,731,500 RSUs;
- Principal amount of August 2018 Debentures - \$4,308,068;
- Principal amount of 2020 Debentures - \$1,124,678;
- Principal amount of High Pita Debentures - \$186,700;
- Principal amount of ASC Debentures - \$50,464;
- Principal amount of Gainor Debentures - \$78,400; and
- 8,828,011 warrants exercisable into SVS with a weighted average exercise price \$0.46 per SVS.

As of the date hereof, the Company has the following securities issued and outstanding:

- 191,891,478 SVS;
- 14,294,891 MVS;
- 205,000 stock options;
- 5,006,500 RSUs;
- Principal amount of August 2018 Debentures - \$4,308,068;
- Principal amount of 2020 Debentures - \$1,124,678;
- Principal amount of High Pita Debentures - \$186,700;
- Principal amount of ASC Debentures - \$50,464l
- Principal amount of Gainor Debentures - \$78,400; and
- 11,875,333 warrants exercisable into SVS.

### **Off-Balance Sheet Arrangements**

As of October 31, 2022, the Company is a guarantor under the following contracts which are not included on the consolidated balance sheet:

1. Lease agreement between Lease Innovations and Anthony Westfall relating to the lease of equipment relating to the purchase of Pasa Verde in Sacramento California. (see Legal Action above)
2. On May 23, 2019, the Company entered into a non-binding letter of intent (“**LOI**”) with Good Vibes, LLC (“**GV**”) and Hannah Ashby (“**Ashby**”) to provide a Southern California base of operations for Calyx. At the time, Ashby held a temporary distribution license issued by the Bureau of Cannabis Control to operate a cannabis distribution business at a property located in Chatsworth, California (“**Chatsworth Licensed Premises**”) leased by GV. As consideration under the LOI, the Company guaranteed payment under the lease between GV, Ashby and the landlord Starbiz Equity Partners. In addition, the Company has funded a portion the completion of the build-out of the Chatsworth Licensed Premises under the LOI. The LOI had also provided for the parties to enter into services and other ancillary agreements. The terms of the LOI were not fulfilled by GV and Ashby and the Definitive Agreements were not completed. Pursuant to the Calyx Sale Agreement, the Company and DB12 have agreed to cooperate in negotiating and obtaining a settlement and release of all amounts due and owing under the lease agreement with respect to the facility in Chatsworth, California (“**Lease Settlement**”), wherein the Company is guarantor on the lease. In connection with the Lease Settlement, the Company shall reimburse DB12 for up to US\$50,000 of the amounts paid by DB12 in respect of the Lease Settlement, of which US\$25,000 may be settled by cash payment and the remaining US\$25,000 may be settled by issuance of SVS. There is, however no assurance that the Lease Settlement will be reached and the Company may be liable under it’s guarantee for the balance due under the Chatsworth lease.
3. In connection with OutCo Acquisition, the Company has agreed to indemnify OutCo and its officers and directors against any litigation from one of its shareholders up to a limit of US\$100,000.
4. As part of the acquisition of the assets of OutCo the Company has assumed various obligations of OutCo (see subsequent event note 26). Included as part 4. b. of the OutCo subsequent event note, included in the US\$375,500 in obligations assumed by the Company is a US\$300,000 secured promissory note due from OutCo to Elan Capital which was in litigation. As part of the acquisition of the assets of OutCo, the Company entered into a conditional settlement and general release dated August 31, 2021. Under the conditional settlement and general release the Company has assumed the obligations due to Elan Capital. The conditions of settlement and release of security are the full repayment of US\$300,000 on or before March 1, 2022 and the ongoing payment of \$2,800 per month. As of July 30, 2022, the principal balance due to Elan is \$212,000. The Company is in discussions to settle the obligation to Elan Capital.
5. With the acquisition of the assets of OutCo, the Company has consolidated the assets and liabilities of the D27 and SDI which have unrecognized income tax liability under Section 280E of the Internal Revenue Code. This unrecognized tax liability has not been reflected in the financial statements because, based on management assessment, upon ultimate settlement with a tax authority is not likely that any tax liability will result. (see Taxation below)

### **Subsequent Events**

On May 4, 2023, the Company announced the results of its Annual General meeting the completion of the name change and timeline for completing the plan of arrangement (“Plan of Arrangement”) to distribute

shares of Neural Therapeutics Inc. ("Neural") to the Corporation's shareholders (see the Corporation's press release dated February 28, 2023 and its management information circular dated March 15, 2023 as supplemented by a supplement filed on [www.sedar.com](http://www.sedar.com) on April 14, 2023 (together, the "Circular") for further details on the Plan of Arrangement).

Annual General and Special Meeting Results Vertical Peak reported that all items to be voted on at the Meeting were approved as set out in the Circular, as described below:

- fixing the size of the Vertical Peak board at seven.
- elected the following individuals as directors:
  - Adam Szweras
  - Bill Gillespie
  - Billy Morrison
  - Rachel Wright
  - John Durfy
  - Ross Mitgang
  - Austin Birch
- appointed BF Borgers CPA PC, Certified Public Accountants as auditors of Vertical Peak for the ensuing year and authorizing the directors to fix their remuneration.

approved a special resolution to change the name of the Corporation to "Vertical Peak Holdings Inc." from "High Fusion Inc.". It will begin trading under the new name on the Canadian Securities Exchange (the "CSE") on or about May 8, 2023. The subordinate voting shares of the Corporation ("SVS") will trade on the CSE under the new ticker symbol "MJMJ". The new SVS CUSIP number is 92539R107 and the new ISIN is CA92539R1073.

- approved a special resolution to continue the Corporation from a company incorporated under the federal laws of Canada to a corporation continued under the laws of British Columbia, including the adoption of new articles and notice of articles.

On May 17, 2023 the Company announced an update on the previously announced proposed spin-out of a portion of its holdings of common shares ("Neural Shares") of Neural Therapeutics Inc. ("Neural") through a plan of arrangement under the Business Corporations Act (British Columbia) (the "Plan of Arrangement"). All of the conditions precedent to completion of the Plan of Arrangement have been satisfied and accordingly, Vertical Peak announced that the anticipated closing date for the Plan of Arrangement is Tuesday, May 23, 2023 (the "Effective Date"). Vertical Peak shareholders who are shareholders of record as of Friday, May 19, 2023 (the "Record Date") will be eligible to receive Neural Shares on the Effective Date pursuant to the Plan of Arrangement, with an ex-dividend date of Thursday, May 18, 2023. On 12:01 a.m. on the Effective Date Vertical Peak shareholders will receive their pro rata portion of the Neural Shares being distributed pursuant to the Plan of Arrangement. The precise number of Neural Shares to be distributed to each Vertical Peak shareholder will be determined on the Record Date.

On May 25, 2023 Vertical Peak Holdings Inc. announced the closing of the previously announced proposed spin-out of Neural through a plan of arrangement under the British Columbia Business Corporations Act (the "Plan of Arrangement"), pursuant to the amended and restated arrangement agreement dated February 24, 2023 ("Arrangement Agreement").



As described in the Corporation's press release dated May 17, 2023, the record date of the Plan of Arrangement was set at May 19, 2023 ("Record Date"). On May 23, 2023, being the effective date ("Effective Date") for the Plan of Arrangement, Vertical Peak shareholders ("Vertical Peak Shareholders"), that were holders of Vertical Peak shares on the Record Date have received their pro rata portion of the common shares in the capital of Neural ("Neural Shares").

On June 26, 2023, the board approved the formation of a special committee to review a number of strategic options to fund the business and its capital deficiency, including equity, debt financings, the sale of assets or the sale of all or part of the business operations. The committee will evaluate these options over the next 2-3 months.

## **Significant accounting policies**

### **Business combinations**

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, along with identifiable assets acquired, and liabilities and contingent liabilities assumed.

In a business acquisitions goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any gain on a bargain purchase is recognized directly in the statement of loss and comprehensive loss. Transaction costs are expensed as incurred.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

### **Asset acquisitions**

The Company identifies and recognizes the individual identifiable assets acquired and liabilities assumed. The cost of the group is allocated to the identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Any excess of the purchase consideration of the asset acquisition over fair value of the acquired assets and liabilities will be recognized as an intangible asset other than Goodwill.

### **Revenue recognition**

Revenue recognition is based on identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, and allocating the transaction price to the individual performance obligations making up the contract. Revenue is then recognized when or as the associated performance obligations are delivered and based on the expected consideration to be received.

Revenue from the sale of products is recognized when all of the following criteria have been satisfied: significant risks and rewards of ownership have been transferred to the buyer, there is no continuing managerial involvement with respect to the goods sold, revenue can be reliably measured at the fair value of the consideration received or expected to be received, it is probable that the economic benefits associated with the transaction will flow to the Company, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue is recognized at the fair value of consideration received or receivable.

### **Inventory**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted-average cost method. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell.

On acquisition, raw materials are recorded at their replacement cost at the date of acquisition. The cost of finished goods is marked up such that the acquirer will only recognize the benefit of the selling effort of a product.

The Company reviews inventory for obsolete and slow-moving goods and any such inventory is written-down to net realizable value.

### **Investment property**

Investment property earns lease income and is not for sale in the ordinary course of business, is not used in the production or supply of goods or services or for administrative purposes. Investment property is carried at historical cost less any accumulated depreciation and impairment losses. Amortization is computed using the declining balance methods based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period. Depreciation is provided at rates as follows:

Building	4% Declining balance
Leasehold improvements	Straight-line over the lease term

### **Interests in equity accounted investees and joint ventures**

The Company's interest in equity accounted investees is comprised of its interest in associates and joint ventures.

In accordance with IFRS 10, Consolidated Financial Statements, associates are those in which the Company has significant influence, but not control or joint control over the financial and accounting policies. In accordance with IFRS 11 Joint Arrangements; a joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interest in associates and joint ventures are accounted for using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures. They are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income ("OCI") of equity accounted investees until the date on which significant influence or joint control ceases.

Investments in equity instruments without significant influence are recorded in fair value.

### **Capital assets**

Property, plant and equipment are carried at cost less any residual value, accumulated depreciation, and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property, plant and equipment include significant components with different useful lives, they are recorded and depreciated separately. Depreciation is computed based on the estimated useful life of the assets. The residual value, useful life and depreciation methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of property, plant and equipment have different useful lives, they are

accounted for as separate items of property, plant and equipment. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Building	4% Declining balance
Leasehold improvements	Term of lease
Vehicles	5 years
Furniture and equipment	3 years
Manufacturing equipment	25%-40% Declining balance
Computer and software	25%-33% Declining balance

### **Intangible assets**

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life, amortization method, and residual values are reviewed at end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortization is provided on a straight-line basis over the estimated useful lives as follows:

Proprietary data	5 years
Customer relationships	5 years

The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination or asset acquisition, that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

### **Goodwill**

Goodwill represents the excess of the purchase price paid for the acquisition of a business over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash-generating unit (“CGU”) or CGUs which are expected to benefit from the synergies of the combination.

Goodwill has an indefinite useful life that is not subject to amortization and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment loss is recognized in the consolidated statement of loss and comprehensive loss in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. The Company’s most recent goodwill impairment test during the second quarter did not result in the recognition of any impairment losses.

Goodwill is tested for impairment annually, or more frequently if events or circumstances indicate there may be impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the goodwill, the impairment loss is first allocated to reduce the amount of goodwill and to the other assets of the unit on pro-rata, based on the carrying amount of each asset in the unit. Any impairment loss

for goodwill is recognized directly in profit or loss and any impairment loss recognized for goodwill is not reversed in subsequent periods.

### **Leases**

At inception, the Company assesses whether a contract is, or contains, a lease. The assessment involves the exercise of judgment about whether the lease depends on a specified asset, whether the Company obtains substantially all the economic benefits for the use of that asset during the lease term, and whether the Company has the right to direct the use of the asset. If the lease contains an extension option that the Company considers reasonably certain to be exercised, the term of the lease becomes the base lease plus renewal option, including any associated costs. For contracts that are, or contain, leases, the Company recognizes a right-of-use asset and a lease liability at the commencement date.

The right-of-use asset is initially measured at cost, which includes the initial amount of the liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and estimates of costs to remove or dismantle the underlying asset or to restore the underlying asset or site on which the asset is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the shorter of the lease term or the useful life of the underlying asset. The right-of-use asset is subject to testing for impairment if there is an indicator for impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid as of the lease commencement date, discounted using the rate implicit in the lease or, if the implicit rate cannot be readily determined, the Company's incremental borrowing rate.

The measurement of lease liabilities includes the following types of lease payments:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate as of the commencement date;
- Amounts expected to be payable under any residual value guarantees; and
- Exercise price for options that the Company is reasonably certain to exercise for an extension or option to buy, and penalties for early termination of a lease unless the Company is reasonably certain that it will not terminate the lease early.

The lease liability is measured at amortized cost using the effective interest method.

Lease liabilities are remeasured in the following circumstances:

- If there is a change in the future lease payments resulting from a change in index or rate;
- If there is a change in the Company's estimation of the amount expected to be payable under a residual guarantee; and
- If the Company changes its assessment of whether it will exercise an option to purchase, extend or terminate.

When the Company subleases a right-of-use asset, the Company classifies the sublease as an operating lease if the head lease is a short-term lease. Otherwise, the sublease is classified as a finance lease. When the sublease is classified as a finance lease, the lessor derecognizes the right-of-use asset pertaining to the head lease that it transfers to the sublessee, at the sublease commencement date, but continues to account

for the original lease liability. The sublessor recognizes a net investment in sublease and evaluates it for impairment and may use the discount rate in the head lease to measure the net investment in sublease. The Company recognizes finance income on the net investment in the lease, and also records income relating to variable lease payments not included in the measurement of the net investment in the lease.

### **Compound financial instruments**

Compound financial instruments issued by the Company comprise of convertible debentures that can be converted to SVS or MVS at the option of the holder, when the number of SVS or MVS to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at a fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and is included within equity.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

### **Valuation of equity units issued**

When the Company issues equity units that include both SVS and share purchase warrants, the proceeds from the issuance of equity units is allocated between the SVS and common share purchase warrants on a pro-rated basis using the relative fair values of SVS and common share purchase warrants. The fair value of the SVS is determined using the share price at the date of the issuance of the units. The fair value of the share purchase warrants is determined using the Black-Scholes valuation model.

### **Share-based payments**

Equity-settled share-based payments to employees are measured at the fair value of the stock options at the grant date and recognized in expense over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

The fair value of options is determined using the Black-Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are retained in share-based payment reserve. Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

### **Restricted Share Units (“RSU”)**

RSUs are measured at fair value on the date of grant based on the closing price of the SVS on the date prior to the grant and is recognized as share-based compensation expense on a straight-line basis over the vesting period. The corresponding amount is recorded to the share-based payment reserve. Upon the exercise of RSUs, the related share-based payment reserve is transferred to share capital.

### **Earnings (loss) per share**

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) available to common shareholders by the weighted average number of SVS and MVS outstanding during the period. Diluted loss per share is calculated using the treasury stock method of calculating the weighted average number of SVS and MVS outstanding. The treasury stock method assumes that outstanding stock options and warrants with an average exercise price below the market price of the underlying SVS are exercised and the assumed proceeds are used to repurchase SVS at the average price of the SVS for the period.

### **Related party transactions**

The Company considers a person or entity as a related party if they are a member of key management personnel including their close relatives, an associate or joint venture, those having significant influence over the Company, as well as entities that are controlled by related parties.

### **Taxation**

#### *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

#### *Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the

extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

#### *US Taxation (280E)*

The Company operates in the legal cannabis industry but is subject to Section 280E of the Internal Revenue Code (“IRC”). Section 280E prohibits businesses engaged in the trafficking of controlled substances (within the meaning of Schedule I and II of the Controlled Substance Act) from deducting normal business expenses associated with the sale of cannabis, such as payroll and rent, from gross income (revenue less cost of goods sold). The application of Section 280E has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. Section 280E was originally intended to penalize criminal market operators, but because cannabis remains a Schedule I controlled substance for U.S. Federal purposes, the Internal Revenue Service (“IRS”) has subsequently applied Section 280E to state legal cannabis businesses. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable and a higher effective tax rate than most industries. The state of California, which the Company operates, allows for the deduction of all ordinary and necessary operating expenses.

The IRS has invoked Section 280E in tax audits against various state-legal cannabis businesses in the U.S. Although the IRS has issued a clarification allowing the deduction of certain expenses, the scope of this allowance is interpreted very narrowly, resulting in the non-deductibility of certain operating and general administrative costs. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to the cannabis industry. Further, there are several pieces of legislation being considered by the U.S. Congress that could change the interpretation of Section 280E by removing its applicability to the legalized cannabis industry.

The Company records tax for all years subject to examination based upon management’s evaluation of the facts, circumstances, and information available at the reporting date. There is inherent uncertainty in quantifying income tax positions, especially considering the complex tax laws and regulations federal purposes. The Company has recorded tax for those tax positions where it is more likely than not that a tax will result upon ultimate settlement with a tax authority that has all relevant information. For those income tax positions where it is not more likely than not that a tax will result, no tax has been recognized in the consolidated financial statements.

#### **Financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the respective instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities, other than financial assets and financial liabilities at FVTPL, are included in the initial carrying value of the related instrument and are amortized using the effective interest method. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Fair value estimates are made at the consolidated statement of financial position date based on relevant market information and information about the financial instrument.

Refer to Note 20 for the Company's financial instruments and their respective financial instrument classification and carrying values.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of income and comprehensive income. Transaction costs are expensed as incurred.

(ii) Amortized cost financial assets

Financial assets at amortized cost are non-derivative financial assets which are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A financial asset is initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of income (loss) and comprehensive income (loss). With the exception of FVOCI equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the consolidated statements of income (loss) and comprehensive income (loss).

(iv) Financial liabilities and other financial liabilities



Financial liabilities are classified as either financial liabilities at FVTPL or at amortized cost. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(v) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognized in profit or loss.

### **Impairment**

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the date of statement of financial position. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its amount's receivable using the ECL model, and no difference was noted. As a result, no impairment loss has been recognized upon transition and at July 31, 2022.

### **Assets carried at amortized cost**

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

### **Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### **Foreign currency translation**

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date.

Nonmonetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in loss and comprehensive loss for the period.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the financial period end;
- Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions);
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign exchange translation.

When a foreign operation is disposed of, the relevant amount in the reserve for foreign exchange in other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal.

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which in substance, is considered to form part of the net investment in the foreign operation, are recognized in the reserve for foreign exchange assumptions

### **Significant accounting estimates and judgments**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

### **Significant estimates**

#### *Useful life of long-lived assets*

Depreciation of capital assets and amortization of intangible assets are dependent upon estimates of their useful lives. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions.

#### *Business combination and asset acquisitions*

In a business combination and asset acquisitions, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. Contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent

settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with International Financial Reporting Standards (“IFRS”) 9, Financial Instruments, or IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. See Note 3 to the financial statements – Business Combinations

Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. Where provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period will last for one year from the acquisition date.

#### *Share-based payments and brokers’ warrants*

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options and brokers’ warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company’s future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

#### *Fair value of financial instruments*

The individual fair values attributed to the different components of a financing transaction, notably investment in equity securities, convertible debentures, and promissory notes are determined using valuation techniques. The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

#### *Recoverability of long-lived assets*

Long-lived assets, including capital assets, investment properties and intangible assets are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of

recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. Changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

#### *Convertible debentures*

The accounting for convertible debentures involves discounted cash flow technique which includes both inputs that are not based on observable market data and inputs that are available from observable market data. Where available, the Company seeks comparable interest rates and, if unavailable uses those considered appropriate based on management's assessment of the Company's risk profile.

#### *Deferred tax*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore, do not necessarily provide certainty as to their recorded values.

### **Significant judgments**

#### *Going concern*

Each reporting period, management exercises judgment in assessing whether there is a going concern issue by reviewing the Company's performance, resources and future obligations.

#### *Business combination*

The determination of whether a set of assets acquired, and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The acquisition of Palo Verde was determined to be business combination by management. (See Note 3 to the financial statements). The acquisition of Neural was determined to be an asset acquisition (See Note 3 to the financial statements)

Judgment is also required to determine when the Company gains control of an investment. This requires an assessment of the relevant activities of the investee, being those activities that significantly affect the investee's returns, including operating and capital expenditure decision-making; financing of the investee; the appointment, remuneration and termination of key management personnel; and when decisions in relation to those activities are under the control of the Company. Difficulties surrounding the control of acquired entities exists within the cannabis industry, due to certain state legislative requirements to structure cannabis license holders.

### *Functional currency*

The determination of the functional currency often requires significant judgment where the primary economic environment in which an entity operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

### *Leases*

Significant judgments related to lessee and lessor accounting primarily include evaluation of the appropriate discount rate to use to discount lease liabilities and net investment in sublease, the determination of lease term, and assessing if the Company was reasonably certain that it would exercise any lease renewal option.

## **ISSUES WITH U.S. CANNABIS-RELATED ASSETS**

### **General**

On February 8, 2018, the CSA issued Staff Notice 51-352, which provides specific disclosure expectations for reporting issuers in Canada that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All reporting issuers with U.S. cannabis-related activities are expected to disclose certain prescribed information clearly and prominently in prospectus filings and other applicable disclosure documents in order to fairly present all material facts, risks and uncertainties about issuers with U.S. cannabis-related activities.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. cannabis industry; (ii) an explanation that cannabis is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's U.S. cannabis-related activities are conducted in a manner consistent with U.S. federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have "ancillary industry involvement", all as further described in Staff Notice 51-352. Public reaction to the notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

In accordance with Staff Notice 51-352, below is a table of concordance that is intended to assist readers in identifying those parts of this Circular that address the disclosure expectations outlined in Staff Notice 51-352.

<b>Industry Involvement</b>	<b>Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties</b>	<b>Circular Cross Reference</b>
<b>All Issuers with U.S. Marijuana-Related Activities</b>	Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	<i>Cover page (disclosure in bold typeface) (page 1)</i>  <i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – Regulatory Overview</i>  <i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – State-Level Overview</i>  <i>Information Concerning Vertical Peak – Description of Business</i>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Circular Cross Reference
		<p><i>Information Concerning Vertical Peak – General Development of Business</i></p> <p><i>Information Concerning Vertical Peak – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States</i></p>
	<p>Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.</p>	<p><i>Cover page (disclosure in bold typeface) (page 1)</i></p> <p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – Regulatory Overview</i></p> <p><i>Information Concerning Vertical Peak – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States</i></p>
	<p>Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.</p>	<p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – Regulatory Overview</i></p> <p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – State-Level Overview</i></p> <p><i>Information Concerning Vertical Peak – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States</i></p>
	<p>Outline related risks including, among others, the risk that third party service providers could suspend or withdraw services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.</p>	<p><i>Cover page (disclosure in bold typeface) (page 1)</i></p> <p><i>Information Concerning Vertical Peak – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States</i></p>
	<p>Given the illegality of marijuana under U.S. federal law, discuss the issuer's ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.</p>	<p><i>Information Concerning Vertical Peak – Risk Factors – Risks Specifically Related to the Regulation of Marijuana in the United States</i></p>
	<p>Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana related activities.</p>	<p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – Summary of balance sheets and operating results with exposure to the U.S. cannabis-related activities</i></p>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Circular Cross Reference
	<p>Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.</p>	<p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – California – Compliance with United States operations – California and San Diego County</i></p> <p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – Colorado – Compliance with United States operations – Colorado</i></p>
<p><b>U.S. Marijuana Issuers with direct involvement in Cultivation or distribution</b></p>	<p>Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.</p>	<p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – California – Compliance with United States operations – California and San Diego County</i></p> <p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – Colorado – Compliance with United States operations – Colorado</i></p>
	<p>Discuss the issuer's program for monitoring compliance with U.S. state law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer's licence, business activities or operations.</p>	<p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – California – Compliance with United States operations – California and San Diego County</i></p> <p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – State-Level Overview – Colorado – Compliance with United States operations – Colorado and Pueblo County</i></p> <p><i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – Summary of U.S. Cannabis Activities of Vertical Peak and its Subsidiaries and Affiliates</i></p>
<p><b>U.S. Marijuana Issuers with indirect involvement in cultivation or distribution</b></p>	<p>Outline the regulations for U.S. states in which the issuer's investee(s) operate.</p>	<p><i>Not applicable – Vertical Peak has no activities that constitute as "indirect involvement" in U.S Marijuana industry, as such described in the guidance under Staff Notice 51-352.</i></p>
	<p>Provide reasonable assurance, through either positive or negative statements, that the investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non-compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee's licence, business activities or operations.</p>	<p><i>Not applicable – Vertical Peak has no activities that constitute as "indirect involvement" in U.S Marijuana industry, as such described in the guidance under Staff Notice 51-352</i></p>

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Circular Cross Reference
<b>U.S. Marijuana Issuers with material ancillary involvement</b>	Provide reasonable assurance, through either positive or negative statements, that the applicable customer's or investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	<i>Information Concerning Vertical Peak - Issuers with U.S. Cannabis-Related Assets – Summary of U.S. Cannabis Activities of Vertical Peak and its Subsidiaries and Affiliates</i>

Notes:

- (1) While Vertical Peak does not hold an interest in DW27 and SDI, due to the nature of the contractual relationship and the fact that each of John Dufy, CEO of Vertical Peak and Robert Wilson, CFO of Vertical Peak hold director positions with DW27 and SDI, Vertical Peak may be deemed to have "direct" involvement as per the guidance of Staff Notice 51-352, due to such relationships, rather than "material ancillary" relationship. In accordance with the IFRS rules and guidance, Vertical Peak consolidates the financial results for each of DW27 and SDI in its financial statements. Please see section titled "Summary of balance sheets and operating results with exposure to the U.S. cannabis-related activities" below.

**Summary of U.S. Cannabis Activities of Vertical Peak and its Subsidiaries and Affiliates**

*Overview of Vertical Peak's Involvement in U.S. Cannabis Activities*

As of the date hereof, approximately 100% of Vertical Peak's revenue was derived from U.S. marijuana-related activities. Through its 100% ownership of Palo Verde, Vertical Peak had "Direct" involvement in manufacturing of cannabis products in the State of Colorado until the surrender of its MMP License and RMP License on November 16, 2022 and March 14, 2023 respectively, and "Material Ancillary" involvement in the State of California through DW27 MSA and SDI MSA.

Below is the summary chart of Vertical Peak's direct, indirect or material ancillary involvement in U.S. marijuana, through its subsidiaries and investments as at the date of hereof. "Direct", "Indirect" and "Material Ancillary" are classification terms as defined in Staff Notice 51-352. While Vertical Peak does not hold direct or indirect interest in DW27 and SDI, due to the nature of the contractual relationships between NH LLC, a wholly owned subsidiary of Vertical Peak and each DW27 and SDI, as well as the commonality of members of the Board and management of Vertical Peak and such Licensed Operators, Vertical Peak may be deemed to have "direct" involvement as per the guidance of Staff Notice 51-352.

Subsidiary/ Affiliate	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
Palo Verde LLC(4)	100%	Direct	Colorado	MED and Pueblo County	Tenth Circuit – District of Colorado	On March 12, 2021 Vertical Peak acquired 100% interest in Palo Verde which held an RMP License until its expiry on March 14, 2023.
NH LLC	100%	Material Ancillary	California	N/A	N/A	In connection with the OutCo Acquisition, Vertical Peak has been assigned East Hill Wellness MSA, DW27



Subsidiary/ Affiliate	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
						MSA and SDI MSA, of which DW27 MSA and SDI remain in full force an effect as of the date hereof.
NH LLC	100%	Material Ancillary <sup>(3)</sup>	California	N/A	N/A	NHLLC entered into MJD Licensing Agreement, pursuant to which it has licensed the intellectual property of MJ Direct.
DW27	Nil <sup>(1)</sup>	Material Ancillary	California	DCC and County of San Diego	Ninth Circuit – Southern District of California	In connection with the OutCo Acquisition, Vertical Peak has been assigned DW27 MSA, which remains in full force an effect as of the date hereof.
SDI	Nil <sup>(2)</sup>	Material Ancillary	California	DCC County of San Diego	Ninth Circuit – Southern District of California	In connection with the OutCo Acquisition, Vertical Peak has been assigned SDI MSA, which remains in full force an effect as of the date hereof.

Notes:

- (1) *In connection with the OutCo Acquisition, Messrs. Durfy and Wilson, serve members of the board of directors of DW27.*
- (2) *In connection with the OutCo Acquisition, Messrs. Durfy and Wilson, serve members of the board of directors of SDI.*
- (3) *While MJ Direct does not carry out any activities in the cannabis space that require a license pursuant to the applicable laws of the State of California, it may be deemed to have Material Ancillary involvement in the State of California, by virtue of deriving a portion of its revenue from Licensed Operators, in consideration for the services provided by MJ Direct to such Licensed Operators.*
- (4) *RMP License held by Palo Verde expired on March 14, 2023, and Vertical Peak elected not to renew the license. Vertical Peak continues to own 100% interest in Palo Verde, which currently does not carry on any commercial activities.*

*Licenses Held by the Entities Involved U.S. Cannabis Activities*

Once an operator obtains local approval, the operator must obtain a license from the appropriate U.S State and local authorities before conducting any commercial marijuana activity. There are multiple license categories that cover all active commercial activity in the State of California conducted by the Licensed Operators which are parties to DW27 MSA and SDI MSA, pursuant to the terms of the various licenses issued by the DCC. The licenses are independently issued for each approved activity for use at the El Cajon Facility for DW27 and for Escondido Premises for SDI. Such licenses are as follows:

Entity Involved	State License and Expiry Date	City/County	Local License and Expiry Date	Type of License
DW27	C-120000091-LIC (June 20, 2023)	El Cajon, CA	MMJ-002 June 23, 2023	Provisional Cannabis Microbusiness License for Medical and Adult Use cannabis distributor, level 1 manufacturer, retailer, and cultivator (under 10,000 sq ft)

Entity Involved	State License and Expiry Date	City/County	Local License and Expiry Date	Type of License
SDI	C10-0000052-LIC (May 13, 2023)	Escondido, CA	MMJ-007 March 9, 2023	Provisional Cannabis Retailer for Medical and Adult-Use
Palo Verde	404R-00215 (March 14, 2023)	Pueblo West, CO	404R-00215 (March 14, 2023)	RMP License

**Neither Vertical Peak nor any of its subsidiaries, affiliates or Licensed Operators that Vertical Peak or any of its subsidiaries has a material relationship with, including the Licensed Operators in the tables above, have received any notices, citations of non-compliance, violation or denial from any applicable local municipal or the U.S. State regulatory authorities. To the best of Vertical Peak's knowledge, all such Licensed Operators are in compliance with all applicable U.S State and local laws and related licensing framework.**

### **Regulatory Overview**

#### *U.S. Federal Law*

While marijuana and Cannabis-Infused Products are legal under the laws of several U.S. states (with vastly differing restrictions), presently the concept of "medical marijuana" and "retail marijuana" do not exist under U.S. federal law. CSAUS classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision.

The United States Supreme Court ruled in a number of cases that the federal government does not violate the U.S. Constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

The DOJ issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the DOJ stated that it is committed to the enforcement of federal laws and regulations related to marijuana. However, the DOJ also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the DOJ rescinded all federal enforcement guidance specific to marijuana and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the U.S. Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. Prior to 2018 and in the Cole Memo, the DOJ acknowledged that certain U.S. states had enacted laws relating to the use of marijuana and outlined the U.S. federal government's enforcement priorities with respect to marijuana notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of marijuana. "**Cole Memo**" means the memorandum dated August 29, 2013, addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the United States, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent: (1) distribution of cannabis to minors; (2) criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis; (3) transfer of cannabis from states where it is legal to U.S. states where it is illegal; (4) cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity; (5) violence or use of firearms in cannabis cultivation and distribution; (6) drugged driving and adverse public health consequences from cannabis use; (7) growth of cannabis on federal lands; and (8) cannabis possession or use on federal property.

On January 4, 2018, and as discussed above, the Cole Memo was rescinded by the Sessions Memorandum signed by the former U.S. Attorney General Jeff Sessions. It is Vertical Peak's opinion that the Sessions Memorandum does not represent a significant policy shift as it does not alter the DOJ's discretion or ability to enforce federal marijuana laws rather just provides additional latitude to the DOJ to potentially prosecute state-legal marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. U.S. state attorney generals will continue to have discretion over how the federal law is enforced with respect to the companies that operate in the U.S. states where cannabis has been legalized for medical or adult use.

Even though the Cole Memo has been rescinded Vertical Peak intends, as guiding corporate policy, to continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current U.S. Federal enforcement guidelines relating to U.S. states in which Vertical Peak operates or has investments in.

There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with state laws. Additionally, any new U.S. federal government administration that follows could change this policy and decide to enforce the U.S. federal laws vigorously. Any such change in the U.S. federal government's enforcement of current U.S. federal laws could cause adverse financial impact and remain a significant risk to Vertical Peak's business. On December 16, 2014, President Obama signed the H.R.83 - Consolidated and Further Continuing Appropriations Act, 2015 ("**Omnibus Bill**"), approving spending for certain federal agencies through September 30, 2015. Section 583 of the Omnibus Bill prohibits the United States government from using federal funds to prevent states with medical marijuana laws from implementing state laws that authorize the use, distribution, possession, or cultivation of medical marijuana.

On May 5, 2017, U.S. President Trump signed into law H.R. 244 - the Consolidated Appropriations Act, 2017, which authorized appropriations that fund the operation of the Federal Government through September 30, 2017. Section 587 of the Consolidated Appropriations Act prohibits the United States government from using federal funds to prevent States with medical marijuana laws from implementing state laws that authorize the use, distribution, possession, or cultivation of state-legal medical marijuana. Nevertheless, (1) this does not prevent the United States government from using federal funds to prevent states with retail marijuana laws from implementing such laws requiring use, distribution, possession or coloration of adult use marijuana; and (2) there can be no certainty that future U.S. federal funding bills will include similar provisions.

On November 14, 2017, Jeff Sessions, the former Attorney General of the United States appearing before the House Judiciary Committee commented on prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement, Mr. Sessions stipulated that the U.S. Federal Government's current policy is the same fundamentally as the Holder-Lynch policy, whereby the states may legalize marijuana for its law enforcement purposes, but it still remains illegal with regard to federal purposes.

On March 22, 2018, the House of Representatives and Senate voted in favour of approving the Omnibus Spending Bill and it was signed into law the following day by the President of the United States. Section 538 of the Bill provided for an extension of the Rohrabacher-Leahy Amendment until September 30, 2018. The extension has been extended through December 22, 2018 as part of a short-term continuation of appropriations. The Rohrabacher-Leahy Amendment prevents the U.S. Department of Justice from using federal funds in enforcing federal law relating to state-legal medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical

marijuana. The amendment was first introduced in 2014 and has been reaffirmed annually since that time. It should be noted that this amendment does not apply to state-legal retail marijuana.

On April 13, 2018, the Washington Post reported that President Trump and Colorado Sen. Cory Gardner reached an understanding that the marijuana industry in Colorado will not be the subject of interference from the federal government and that the DOJ's recession of the Cole memo will not impact Colorado's state legal marijuana industry. Furthermore, President Trump provided assurances that he will support a federalism-based legislative solution to fix the issue regarding the states' rights to regulate cannabis. Around the same timeframe it was announced that a former Republican House Speaker John Boehner has been appointed to the advisory board of a U.S. cannabis company. Vertical Peak is cautiously optimistic that these developments represent a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government.

On November 7, 2018, Jeff Sessions resigned as Attorney General, William Barr was then appointed as Attorney General on February 14, 2019, and in his hearing, mentioned that he would "not go after companies that have relied on the Cole memorandum" nor would he "upset settled expectations and reliant interests" related to it. The Department of Justice under Mr. Barr had not taken a formal position on federal enforcement of laws relating to cannabis. Mr. Barr had stated publicly that his preference would be to have a uniform federal rule against cannabis, but, absent such a uniform rule, his preference would be to permit the existing federal approach of leaving it up to the states to make their own decisions. There is no guarantee that the position of the Department of Justice will not change. If the Department of Justice policy under Attorney General William Barr were to aggressively pursue financiers or owners of cannabis-related businesses, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then Vertical Peak could face (i) seizure of its cash and other assets used to support or derived from its cannabis operations, (ii) the arrest of its employees, directors, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis, and/or (iii) the barring of its employees, directors, officers, managers and investors who are not United States citizens from entry into the United States for life. The Rohrabacher–Farr amendment (also known as the Rohrabacher–Blumenauer amendment) prohibits the Department of Justice from spending funds to interfere with the implementation of state medical cannabis laws. It first passed the U.S. House of Representatives in May 2014 and became law in December 2014 as part of an omnibus spending bill. The passage of the amendment was the first time either chamber of Congress had voted to protect medical cannabis patients and is viewed as a historic victory for cannabis reform advocates at the federal level. The amendment does not change the legal status of cannabis and must be renewed each fiscal year in order to remain in effect. Since 2015, Congress used a rider provision in the Consolidated Appropriations Acts (currently the Joyce Amendment, but previously called the Rohrabacher-Blumenauer Amendment and before that the Rohrabacher-Farr Amendment) to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against state-compliant actors in jurisdictions that have legalized medical cannabis and cannabis-related activities. The Joyce Amendment was again included in the most recent annual appropriations bill. Additionally, the Blumenauer-McClintock-Norton-Lee amendment had been under consideration. This amendment would have extended the protections of the Joyce Amendment to adult-use businesses. However, the Blumenauer-McClintock-Norton-Lee amendment was not included in the appropriations bill that was passed by Congress on March 10, 2022 and signed by President Biden on March 15, 2022. The Blumenauer-McClintock-Norton-Lee amendment was expected to again be under consideration for inclusion in the next annual appropriations bill.

Additionally, on April 4, 2019, the "Strengthening the Tenth Amendment Through Entrusting States Act" ("**STATES Act**") was introduced in the Senate by Democratic Senator Elizabeth Warren of Massachusetts, along with 9 cosponsors, 5 republicans and 4 democrats. That same day, an identical bill was introduced in the House by Democratic representative Earl Blumenauer of Oregon, along with 47 Cosponsors, 31 Democrats and 16 Republicans (the "**Bill**"). The Bill provides in relevant part that the provisions of the CSA, as applied to marijuana, "shall not apply to any person acting in compliance with state law relating to the manufacture, production, possession, distribution, dispensation, administration, or delivery of marihuana." Even though marijuana will remain within Schedule I under the STATES Act, it makes the CSA unenforceable to the extent it is in conflict with state law. In essence, the Bill extended the limitations afforded by the Rohrabacher- Blumenauer protection within the federal budget – which prevents the Department of Justice and the Drug Enforcement Agency from using funds to enforce federal law against state-legal medical cannabis commercial activity – to both medical and recreational cannabis activity in all states where it has been legalized. By allowing continued prohibition to be a choice by the individual states, the STATES Act does not fully legalize cannabis on a national level. In that respect, the Bill emphasized states' rights under the Tenth Amendment, which provides that "the powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people."

On September 25, 2019, the House voted in favor of the SAFE Banking Act. The historic vote was the first time that a standalone marijuana bill has come before the full House. The vote needed a two-thirds majority to pass and was supported by 321 votes in favor to 103 against. While Vertical Peak is pleased with the vote, which will help remedy the severe impact the lack of access to banking has had on the industry and the particular risks associated with operating in a largely cash-based industry, it would have urged the Senate to adopt similar banking protections and approve the Marijuana Opportunity Reinvestment and Expungement Act which would remove cannabis from the FCSA and take steps to begin repairing the harms of the war on drugs.

On November 21, 2019, the House Judiciary Committee voted 24-10 to pass the Marijuana Opportunity Reinvestment and Expungement Bill of 2019 ("**MORE Act**"). The bill would have effectively put an end to cannabis prohibition in the United States on the federal level by removing it from Schedule 1 of the Controlled Substances Act, and past federal cannabis convictions would be expunged. Additionally, if fully passed, the law would allow the Small Business Administration to issue loans and grants to marijuana-related businesses and provide a green light for physicians in the Veterans Affairs system to prescribe medical cannabis to patients, as long as they abide by state-specific laws.

Although the House of Representatives voted to pass the MORE Act on December 4, 2020, it failed to pass in the Senate prior to the end of the 2020 legislative session. There can be no assurance that it will be passed in its current form or at all.

On November 3, 2020, the U.S. held a presidential election and on November 6, 2020, despite ongoing legal challenges from the Trump administration, Joseph R. Biden was named the next President-Elect of the U.S. While this development is widely viewed to be favorable for the cannabis industry, the ultimate impact of a Biden administration is, as yet, unknown.

On December 14, 2020, President Trump announced that William Barr resigned from his post as Attorney General, effective December 23, 2020. President-Elect Joseph Biden nominated Merrick Garland to succeed Mr. Barr as the U.S. Attorney General. It is unclear what impact, if any, the new administration will have on U.S. federal government enforcement policy on cannabis. If the DOJ policy shifts to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such policies through pursuing prosecutions, then Vertical Peak could face (i) seizure of its cash

and other assets used to support or derived from its cannabis subsidiaries, and (ii) the arrest of its employees, directors, officers, managers and investors, who could face charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis. Additionally, as has recently been affirmed by U.S. Customs and Border Protection, employees, directors, officers, managers and investors of Vertical Peak who are not U.S. citizens face the risk of being barred from entry into the United States for life.

On December 27, 2020, President Donald Trump signed the Consolidated Appropriations Act of 2021, which included the Rohrabacher-Farr Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under state law. The Consolidated Appropriations Act of 2021 makes appropriations for the fiscal year ending September 30, 2021. There can be no assurances that the Rohrabacher- Farr Amendment will be included in future appropriations bills or budget resolutions.

On April 19, 2021, the SAFE Banking Act of 2019 (the "**SAFE Banking Act**" or "**SAFE**") again passed the U.S. House of Representatives by a 321 – 101 vote. Vertical Peak's management believes, based on currently available information, that the likelihood of the SAFE Banking Act's passage is high, however, the particular timing and legislative vehicle is still unknown. The U.S. Senate has declined to bring the SAFE Banking Act up for a vote due to pending comprehensive federal reform legislation from Senate Majority Leader Chuck Schumer (D-NY), Senate Finance Committee Chair Ron Wyden (D-OR) and Senate Judiciary Criminal Justice and Counterterrorism Subcommittee Chair Cory Booker (D-NJ). The provisions of the SAFE were offered by Congressman Earl Perlmutter (D-CO) as an amendment to the House version of the Defense Authorization Act (NDAA/HR 4350), which passed the House on September 23, 2021. However, the Senate's version of the bill did not include SAFE and the compromised NDAA language also failed to include the SAFE. On January 28, 2022, Rep. Ed Perlmutter (D-CO) filed an amendment to the America COMPETES Act, HR 4521, which incorporated the SAFE Banking language into the bill. The America COMPETES Act relates to high-tech investment incentives and programs. On February 1, 2022, Rep. Perlmutter's SAFE Banking amendment was considered by the House Rules Committee and included in the America COMPETES Act. The America COMPETES Act passed the House on February 4, 2022, with the SAFE banking included. The House and Senate determined the content of the final bill and whether SAFE's language would be included through a conference committee process in which the final content of the bill is negotiated by members of both the House and Senate and both political parties. On June 23, 2022, the SAFE Banking Act was removed from the America COMPETES/United States Innovation and Competition Act in favor of historic investment to surge production of American-made goods, tackle supply-chain vulnerabilities and increase global competitiveness, among other priorities.

On May 5, 2021, U.S. Representatives David Joyce (R-OH) and Don Young (R-AK) introduced the Republican reform proposal called the Common Sense Cannabis Reform for Veterans, Small Businesses and Medical Professionals Act.

On February 1, 2021, Leader Schumer and Senators Wyden and Booker issued a joint statement announcing the imminent release of comprehensive cannabis reform legislation which stated, "We will release a unified discussion draft on comprehensive reform to ensure restorative justice, protect public health and implement responsible taxes and regulations." On July 14, 2021, Leader Schumer and Senators Wyden and Booker released the Cannabis Administration and Opportunity Act (the "**CAO Act**"), a 163-page discussion draft bill, alongside a 30-page summary document, which effectively de-schedules cannabis, provides restorative justice for past cannabis-related convictions and establishes a federal regulatory system within the U.S. FDA for cannabis products. In addition to the aforementioned provisions, the CAO Act also maintains state

authority to establish individual cannabis policies and establishes a federal tax on cannabis products. Stakeholder comments were submitted to the Sponsoring Offices on or before the requested deadline of September 1, 2021. The Sponsoring Offices spent significant time considering those comments and amended the discussion draft bill. On July 21, 2022, Leader Schumer and Senators Wyden and Booker formally filed the CAO Act. However, there is no indication that the bill will be brought to a vote in the near future.

On November 15, 2021, Rep. Nancy Mace (R-SC) introduced the States Reform Act. The bill, if enacted, would legalize cannabis at the federal level by removing cannabis from the Controlled Substances Act and provide some deference to the states and state programs. The bill defers to the states to prohibit or commercially regulate adult-use cannabis within their borders. In addition to state regulation, cannabis would generally be regulated at the federal level in manner similar to alcohol, including by the U.S. FDA, the U.S. Department of Agriculture and the Alcohol and Tobacco Tax and Trade Bureau, which would be renamed the Bureau of Alcohol, Tobacco and Cannabis Tax and Trade Bureau. The States Reform Act was referred to the House Judiciary Committee and will be reported to several other committees and subcommittees before advancement. There is no indication that the bill will move forward while the House is under Democratic control.

On June 23, 2022, U.S. Congressmen Troy A Carter, Sr. (D-LA) and Guy Reschenthaler (R-PA) introduced bipartisan legislation, The Capital Lending and Investment for Marijuana Businesses Act ("**CLIMB Act**"), to allow American state legal cannabis companies, including small, minority and veteran-owned businesses the ability to access critical lending and investment opportunities currently available to other domestic and regulated industries. The CLIMB Act currently sits in the House Financial Services Committee.

On October 6, 2022, President Joe Biden announced he will take executive action to pardon thousands of people convicted of marijuana possession under federal law. President Biden said he would also encourage state governors to take similar action with state offenses and asked the U.S. Department of Health and Human Services and the U.S. Department of Justice to review how marijuana is scheduled, or classified, under federal law.

At this time, there is still very little clarity as to how President Biden, or Attorney General Merrick Garland (appointed since March 2021), will enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the current Presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with State laws. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed, amended or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends or repeals the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendment or repeal there can be no assurance), there is a significant risk that federal authorities may enforce current federal law. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, Vertical Peak's business, results of operations, financial condition and prospects would be materially and adversely affected. Additionally, any new U.S. federal government administration that follows could change this policy and decide to enforce the U.S. federal law vigorously. **Any such change in the U.S. federal government's enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to Vertical Peak's businesses, which could in turn have an impact on Vertical Peak's operations or financial results. A change in its enforcement policies could impact the ability of Vertical Peak to continue as a going concern.** Please see section titled "*Risk Factors*".

On December 23, 2022, the U.S. House of Representatives passed a \$1.7 trillion year-long federal government spending bill, paving the way for it to be signed into law by President Joe Biden. The spending bill's Senate sponsors, Oregon Democrat Jeff Merkley and Montana Republican Steve Daines, had pushed to include a version of the SAFE Banking Act in the roughly \$1.7 trillion funding measure but ultimately it did not make the cut. This is the third failed attempt in 2022 to get the measure passed with a larger package.

Businesses operating in states where marijuana is legal have faced barriers to financial institutions because it remains illegal at the federal level, forcing many of these businesses to deal only in cash, or create workarounds to the banking system — the most popular of which was recently shut down. The SAFE Banking Act would prohibit federal regulators from penalizing banks and other depository institutions for providing services to legal cannabis businesses. It would have been a huge boon to marijuana companies, which have lobbied for the bill as the least controversial form of federal legislation that they have sought over the past years.

### ***Responses of U.S. Attorneys to Sessions Memorandum***

The following is a summary of U.S. Attorneys' responses following the Sessions Memorandum in the States in which Vertical Peak operates.

#### *State of California*

McGregor Scott, U.S. Attorney for the Eastern District of California, said he will prioritize illegal marijuana operations rather than going after the legal recreational marijuana market. He commented, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there, so for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

David L. Anderson was sworn in as United States Attorney for the Northern District of California on January 15, 2019. To Vertical Peak's knowledge, he has not yet offered a public stance on his approach to legislation of marijuana in his judicial district.

Nicola Hanna, the U.S. Attorney for the Central District of California who was nominated and confirmed by the Senate in April of 2018, has not yet offered a public stance on her approach to legislation of marijuana in his judicial district.

Adam Braverman, U.S. Attorney for the Southern District of California, commented that the Department of Justice is committed to reducing violent crime and enforcing the laws as enacted by Congress. The cultivation, distribution, and possession of marijuana has long been and remains a violation of federal law and the Southern District of California will utilize long-established prosecutorial priorities to carry out its mission to combat violent crime, disrupt and dismantle transnational criminal organizations, and stem the rising tide of the drug crisis.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize cannabis", "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent." On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with \$2.5 million in federal money backing the effort.



On July 20, 2020, a petition was filed with the U.S. District Court for the Southern District of California stating that the DEA delivered a subpoena to the BCC in January of 2020 seeking "unredacted cannabis license(s), unredacted cannabis license application(s), and unredacted shipping manifest(s)" for six different unnamed entities in connection with an ongoing DEA investigation. The BCC declined to comply with the DEA's initial subpoena by claiming that it lacked specificity and would risk violating certain state privacy laws.

The BCC attempted to remain firm in its position, but ultimately on August 31, 2020, the federal court ruled that the BCC was required to comply with the DEA's subpoena. Based on publicly available information, the DEA's intent behind the subpoena is focused strictly on potential black-market activity between California and Mexico.

To the knowledge of Vertical Peak's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

### *Colorado*

On October 26, 2018, Jason R. Dunn was sworn in as the United States Attorney for the District of Colorado. Mr. Dunn has not released a public statement regarding the enforcement of state licensed marijuana businesses; however, he has stated that he has to make decisions for enforcement actions and priority with regards to resources and intends to focus on black market activities. Mr. Dunn does participate on a cannabis working group with other federal prosecutors around the U.S.

To the knowledge of Vertical Peak's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Colorado.

### ***Enforcement of U.S. Federal Laws***

For the reasons set forth above, Vertical Peak's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, Vertical Peak may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on Vertical Peak's ability to invest in the United States or any other jurisdiction. See section titled "Risk Factors".

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

Further, 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 Vertical Peak, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical 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 for Vertical Peak 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. See section titled "*Risk Factors*".

### ***U.S. Enforcement Proceedings***

The U.S. Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("**Rohrabacher-Blumenauer Amendment**"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the U.S. Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the "**Rohrabacher-Leahy Amendment**") and continued the protections for the state-legal medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSAUS, any individual or business – even those that have fully complied with state law – could be prosecuted for violations of federal law. If Congress restores funding, the U.S. federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the U.S. CSA's five-year statute of limitations.

Most recently, the U.S. Congress passed H.R. 3055, the "Commerce, Justice, Science, Agriculture, Rural Development, Food and Drug Administration, Interior, Environment, Military Construction, Veterans Affairs, Transportation, and Housing and Urban Development Appropriations Act, 2020" (the "**2020 Appropriations Act**").

On June 20, 2019, the 2020 Appropriations Act was amended by a U.S. Congress house floor vote (267-165) to include Amendment No. 17 (**Blumenauer (D-OR), Norton (D-DC), McClintock (R-CA)**), which expanded the previously-mentioned protective cannabis amendments to appropriations bills and which now specifically prohibits the Department of Justice from interfering with "state cannabis programs", which includes both medical and adult-use cannabis programs. On September 26, 2019, the Senate Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher–Farr Amendment for the 2020 fiscal year spending bill. On September 27, 2019, the Rohrabacher–Farr Amendment was renewed as part of a stopgap spending bill, in effect through November 21, 2019.

On December 20, 2019, President Donald Trump signed the Consolidated Appropriations Act, 2020 which included the Rohrabacher/Blumenauer Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under state law, extending its application until September 30, 2020. In July 2020, the House of Representatives passed the "Blumenauer-McClintock-Norton-Lee amendment," to the Commerce, Justice, Science (CJS) Appropriations bill. That amendment was included in a series of stopgap spending bills from September 2020 through the end of December 2020. On December 27, 2020, the amendment was renewed through the signing of the fiscal year 2021 spending bill, which was effective through September 30, 2021. Following the expiration of the fiscal year 2021 bill, President Biden has renewed the amendment through a series of stopgap spending bills, with the most recent extension effective through March 11, 2022. On March 10, 2022, the fiscal year 2022 omnibus appropriations bill including the amendment was signed into law by President Biden. There can be no assurances that similar provisions will be included in future appropriations bills.

U.S. courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with applicable State law. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business – even those that have fully complied with applicable State law – could be prosecuted for violations of U.S. federal law. If Congress restores funding, the U.S. federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the CSA's five-year statute of limitations.

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

Vertical Peak has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. Vertical Peak has had cannabis-related activities in the United States since 2014. In addition, Vertical Peak has had successes in completing several public and private offerings in the last number of years, including private placements of Vertical Peak SVS, Vertical Peak MVS, share purchase warrants, convertible debentures and secured notes. However, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants, given that marijuana is illegal under U.S. federal law. There can be no assurance that additional financing, if raised privately, will be available to Vertical Peak when needed or on terms which are acceptable. Vertical Peak has never needed to access public equity capital in the U.S.

### ***State-Level Overview***

Regulations differ significantly amongst the U.S. states. Some U.S. states only permit the cultivation, processing and distribution of medical marijuana and Cannabis-Infused Products. Some U.S. states may also permit the cultivation, processing, and distribution of marijuana for adult purposes and retail Cannabis-Infused Products.

The following sections present an overview of state-level regulatory and operating conditions for the marijuana industry in which Vertical Peak has direct, indirect and material ancillary involvement.

### ***California***

California has an existing medical marijuana law and voted to approve the "Adult Use of Marijuana Act" ("**AUMA**") to tax and regulate for all adults 21 years of age and older on November 8, 2016. California was the first State to pass medical marijuana in 1996, allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged. In September of 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("**MCRSA**"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a state license and local approval to operate.

On July 2, 2017, 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 medical and adult use licensing regime for cannabis businesses in the State of California. On November 16, 2017, the State of California introduced the emergency regulations, which governed by the BCC, CDPH and California Department of Food and Agriculture (collectively "**Emergency CA Regulations**"), provided further clarity on the regulatory framework that governed cannabis businesses. The regulations built on the regulations provided by MCRSA and AUMA and also

specified that businesses need to comply with the local law in order to also comply with the State regulations. The current Emergency CA Regulations, adopted by the BCC, CDPH and California Department of Food and Agriculture were readopted in June 2018, to meet the legislative mandate to open California's regulated cannabis market on January 1, 2018, the same date California moved to full-adult use state legalization for cannabis products. In July 2018, California's three state cannabis licensing authorities announced the publication of proposed regulations in the California Regulatory Notice Register, the first step toward adopting non-emergency regulations. This publication started the formal rulemaking process. Temporary regulations were extended throughout the rule making process and on January 16, 2019, California's three state cannabis licensing authorities announced that the Office of Administrative Law (OAL) officially approved state regulations for cannabis businesses across the supply chain and the new regulations took effect immediately, meaning the previous emergency regulations were no longer in effect. To operate legally in California, cannabis operators must obtain a state license and local authorization. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold, except as it relates to certain cultivation medium outdoor, medium indoor or medium mixed light A or M license, where a party may only receive one license in the respective category but may supplement with other license types. Although vertical integration across multiple license types is allowed, testing laboratory licensees may not hold any other licenses aside from a laboratory license and distributors may not also hold a transport license. There are no residency requirements for ownership under the California State licensing regime.

*On May 29, 2018, U.S. federal and California State authorities announced a joint effort to target illegal cannabis grows, with \$2.5 million in federal money backing the effort. McGregor Scott, U.S. Attorney for the Eastern District of California, said he will prioritize illegal cannabis rather than pursuing enforcement with respect to the legal recreational marijuana market even though U.S. federal law bans marijuana. He stated, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there ... So for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."*

On September 27, 2018, California State Governor Jerry Brown signed Senate Bill 1459, which modified MAUCRSA to allow the State licensing authorities to issue provisional licenses to temporary licensees as a bridge between temporary and annual licenses until January 1, 2020. A provisional license has the same requirements as an annual license. In March 2019, lawmakers in California had proposed State Senate Bill 51, which is designed to help cannabis businesses that have been shut out from the traditional banking system. Cannabis businesses have transacted predominantly in cash due to continued U.S. federal banking restrictions that make it nearly impossible for them to have bank accounts with federally chartered financial institutions. There had also been efforts underway at the U.S. federal level to pass legislation that would allow banks to serve cannabis-related businesses without the risk of being prosecuted. The proposed measure would allow private banks or credit unions to apply for a limited-purpose state charter so they can provide depository services to licensed cannabis businesses. California's legal marijuana industry is struggling to compete with the black market and is facing challenges that include banking access and high taxes.

In May 2019, Attorney General Becerra, along with 37 other U.S. state and territorial attorneys, sent a letter to congressional leaders, urging them to enact the SAFE Banking Act or other legislation that would expand banking access for cannabis companies.

On August 6, 2019, the California DOJ released the "Guidelines for the Security and Non-Diversion of Cannabis Grown for Medicinal Use" to clarify the state's laws governing medicinal cannabis, and specifically those related to the enforcement, transportation, and use of medicinal cannabis. The Guidelines come after significant changes in state law on recreational cannabis use. The revised guidelines include:

- (1) A summary of applicable laws;
- (2) Guidelines regarding individual qualified patients and primary caregivers;
- (3) Best practices for the recommendation of cannabis for medical purposes;
- (4) Enforcement guidelines for state and local law enforcement agencies; and
- (5) Guidance regarding collectives and cooperatives.

In July 2019, California State Governor Gavin Newsome signed Assembly Bill 97, which modified MAUCRSA to extend the sunset date for the issuance of provisional licenses from January 1, 2020, to January 1, 2022. Further, the bill allowed for the issuance of provisional licenses to applicants who did not previously hold a temporary license.

On October 12, 2019, California State Governor Gavin Newsom signed several cannabis-related bills that, among other things, are designed to bolster minority participation in the industry, ensure labor peace and institute a vaporizer cartridge labeling requirement, including one that will let legal businesses take advantage of more tax deductions. He also vetoed another measure that would have allowed some patients to use medical cannabis in health care facilities. A summary of the cannabis bills signed into law include:

- (1) Senate Bill 595 requires the State to implement a program by January 1, 2021, that defers or waives license application and licensing or renewal fees for qualified "needs-based" applicants. This is a social equity provision to boost minority participation in the industry.
- (2) Assembly Bill 1529 requires adding a universal symbol no smaller than a quarter-inch-by-quarter-inch on all cannabis vaporizer cartridges. The symbol must be engraved, affixed with a sticker or printed in black or white.
- (3) Assembly Bill 1291 strengthens an existing provision for marijuana businesses by requiring applicants with 20 or more employees to provide a notarized statement that they will enter into and abide by the terms of a labor peace agreement.
- (4) Assembly Bill 858 clarifies some requirements for "specialty cottage" growers with a maximum 2,500 sq. ft. of canopy.
- (5) Senate Bill 34 allows marijuana retailers to provide free products to medical patients that meet certain criteria. Such was a common industry practice until new regulations went into effect in 2018.

California State Governor Newsom also signed a bill, AB 37, that allowed cannabis business owners to deduct business expenses at the state level, something that remains illegal federally.

On January 10, 2020, Governor Newsom also unveiled his annual budget proposal which contains several provisions aimed at simplifying and streamlining regulations for the marijuana industry. The biggest proposed change concerns the State's cannabis licensing system, which would consolidate into The Department of Cannabis Control, rather than the three that are currently in charge of approving marijuana businesses. "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 said in a summary. The proposals are not yet final, and the administration is scheduled to post changes in May 2020, with the final budget expected to be enacted in the summer of 2020.

Based on 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 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.

With the passage of AB 141 on July 12, 2021, BCC, CDFA and CDPH were consolidated into DCC. On September 8, 2021, the DCC announced proposed emergency regulations to move all cannabis regulations into Title 4 of the California Code of Regulations, with a stated goal of consolidating and improving the regulations. The proposed emergency regulations were in the review and comment period which closed on September 20, 2021.

In March 2022, the DCC initiated a rule making process in which it promulgated a comprehensive regulatory proposal, including amendments to its current rules that would make permanent emergency rules that have been in effect since September 2021. Comments on the proposed rules were submitted by all interested parties by April 19, 2022. The DCC then considered the comments submitted and issued an updated rule set for a second comment period. A final version of the rules was filed by the DCC with the California Office of Administrative Law on September 26, 2022. The rules are still pending and are anticipated to become effective in the fall of 2022. Among other rule making activities, the DCC is currently considering new rules for large cultivation licenses and conversion to large and medium licenses in addition to rules related to the establishment of a standard cannabinoids test method, including standardized operating procedures which will be utilized by all licensed testing laboratories in California.

With respect to legislation, the California legislature passed AB 195, which was signed into law by Governor Newsom on June 30, 2022. AB-195 eliminates the cannabis cultivation tax and serves to shift responsibility for collecting the cannabis excise tax from distributors to retailers.

#### Contract Manufacturing

Vertical Peak has assessed its relationships with its brand partners in order to ensure full compliance in regard to contract manufacturing (California Code of Regulations Title 16, Division 42 – Medicinal and Adult Use Cannabis Regulation, Section 5032 – Commercial Cannabis Activity).

#### Zoning and Land Use Requirements

Applicants are required to comply with all local zoning, environmental and land use regulations and provide written authorization from the property owner and the local jurisdiction where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization and the jurisdiction's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises. Each of DW27 and SDI have represented to Vertical Peak that they each hold full zoning and use permits from the San Diego County.

#### Local Licensing of Cannabis Businesses in California

At present, to legally operate a medical or adult-use cannabis business in California, the operator must have both a local and state license. This requires license holders to operate in cities with cannabis licensing programs. Therefore, cities in California are allowed to determine the number of licenses they will issue to

cannabis operators or can choose to outright ban cannabis. Each of DW27 and SDI are located in unincorporated areas of San Diego County and are thus required to hold valid permits from the San Diego County Sheriff's Department. Each of DW27 and SDI have represented to Vertical Peak that they each hold the requisite licensing from the San Diego County.

#### Record-Keeping and Continuous Reporting Requirements

California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program.

#### Operating Procedure Requirements

Applicants must submit standard operating procedures describing how the operator will, among other requirements, address transportation, security, inventory, waste disposal, and quality control as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

#### Site-Visits & Inspections

The California operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

#### Compliance with United States operations - California and San Diego County

Vertical Peak's staff tasked with overseeing compliance with applicable local and state regulations work closely with Vertical Peak's CEO and external consultants tasked with evaluating compliance, Vertical Peak's standard operating procedures and mechanisms in place to remedy any potential instances of non-compliance. The staff's responsibilities include:

- Securing and updating local operating permits and state manufacturing permits;
- Screening products and product packaging for any discrepancies with regulations issued by the DCC;
- Working with manufacturers and cultivators to address any packaging deficiencies;
- Testing all products according to the State code via licensed facilities;
- Working with State regulators to address any issues exposed through testing including relabeling, remediation or product destruction via licensed cannabis waste management organization; and
- Managing integration with the State's forthcoming Track and Trace program.
- Communication with general managers of Vertical Peak's facilities outside of California to monitor compliance of those facilities, review the information provided regarding compliance with applicable regulations and if necessary, relay that information to the appropriate members of the senior management team to take the corrective action.

Following submission of a pre-application request and once compliance with the business premises location is completed, including all zoning requirements and sensitive use restrictions, the San Diego County Board of Supervisors will request and review attestations from primary personnel and owner(s) associated with

the application. Following such review, San Diego County Board of Supervisors will issue a determination of eligibility/ineligibility for further processing. A determination of eligibility is based on, among other things, an initial inspection and environmental clearance.

Following a determination of eligibility, the San Diego County Board of Supervisors reviews the application for completeness, including the status of state licenses and verification of local compliance under way with the state agencies. Following temporary approval, applicants may apply for an annual license.

Continued compliance includes ongoing, unannounced inspections, investigations and audits conducted by the employees or agents of the San Diego County. Such inspections may include an examination of employee practice; cannabis safety; proper storage; equipment/utensils; facility; plumbing fixtures; sign/license requirements; record keeping; compliance and enforcement; and requirements for manufacturing.

Vertical Peak's management believes that Vertical Peak has developed a robust compliance program designed to ensure operational and regulatory requirements continue to be satisfied, and has retained outside counsel to monitor its compliance with U.S. State and local law on an ongoing basis. Vertical Peak will continue to work closely with its legal counsel to develop and improve its internal compliance program and will defer to their legal opinions and risk mitigation guidance regarding the complex regulatory framework of the State of California and San Diego County. The internal compliance program requires continued monitoring by managers and executives of Vertical Peak to ensure all operations conform to and comply with required laws, regulations and legally compliant standard operating procedures.

In addition, Vertical Peak has previously sought and continues to seek legal advice from JRG Attorneys at Law ("**JRG**"), as local external counsel, to ensure that all aspects of the license/permit, products and operation prior to acquisition (as part of due diligence) and post-acquisition is in compliance with applicable State of California law. The executive of each operating unit is responsible for overseeing and maintaining compliance post-acquisition.

## ***Colorado***

### Regulatory Developments Overview – Colorado

On November 7, 2000, 54% of Colorado voters approved Amendment 20, which amended the State Constitution to allow the use of marijuana in the State for approved patients with written medical recommendation from a license physician.

Colorado voters legalized the use of retail marijuana in 2012 through amendments to the Colorado Constitution. The Colorado Amendment 64, which was passed by voters on November 6, 2012, led to legalization in January 2014. There are two sets of policies in Colorado relating to cannabis use: those for medicinal cannabis and for recreational use, along with a third set of rules governing hemp.

On January 1, 2014, Colorado became the first state in the nation to allow sales of recreational cannabis, with a licensing scheme that is overseen by the Department of Revenue, Marijuana Enforcement Division. Unlike the State of Washington, Colorado did not place caps on production or the number of licensed retail cannabis stores available within the State – as of August 1, 2018, there were about 532 licensees in the state. Any adult aged 21 or over may purchase up to one ounce of cannabis or cannabis products per day from a licensed retailer.

Governor Hickenlooper signed several bills into law on May 28, 2013, implementing the recommendations of the Task Force on the Implementation of Amendment 64. On September 9, 2013, the Colorado Department of Revenue adopted final regulations for recreational marijuana establishments, implementing the Colorado Retail Marijuana Code (HB 13-1317). On September 16, 2013, the Denver City Council



adopted an ordinance for retail marijuana establishments. During 2014, the first year of implementation of Colorado Amendment 64, Colorado's legal marijuana market (both medical and recreational) reached total sales of \$700 million.

In May 2019, Governor Polis signed into law multiple marijuana laws, including *HB19-1090 - "Publicly Licensed Marijuana Companies"* which repeals the provision that prohibits publicly traded companies from holding a marijuana license and increases investment flexibility in Colorado licensed marijuana companies. Also passed was *SB19-224 - "Sunset Regulated Marijuana"* which makes the Colorado marijuana regulations permanent while streamlining such regulations to create efficiencies for operators and regulators. MED licenses and regulates Marijuana Businesses in the State of Colorado. To operate legally in Colorado, cannabis operators must apply for a Marijuana Business License, and must meet certain statutory requirements including being at least 21 years of age or older and a resident of the state of Colorado. Additionally, they must confirm that the city and county where they plan to operate their business within their jurisdiction. Anyone working within Colorado's marijuana industries must also obtain a Marijuana Occupational License. These application and licensing fees can range anywhere from \$3,000 to over \$13,000.

As of January 1, 2020, medical and adult use cannabis are regulated together under a single statute – the Cannabis Code. Under the Cannabis Code, the MED is empowered to grant licenses to both adult use and medical cannabis businesses, including cultivation facilities, products manufacturers, testing facilities, transporters, researchers and developers, and (in the adult use context) accelerator cultivators, accelerator stores, and hospitality businesses. Cannabis businesses must also comply with local licensing requirements. Colorado localities are allowed to limit or prohibit the operation of cannabis businesses.

#### Regulatory Requirements - Colorado

The regulations establish requirements applicable to all cannabis businesses, along with specific requirements for each type of business. All cannabis businesses in Colorado are required to (1) create and enforce limited access areas for the protection of cannabis and cannabis products, (2) maintain security alarm systems installed and maintained by a licensed alarm installation company, as well as approved locks and surveillance equipment, (3) follow all applicable laws regarding waste disposal (including cannabis-containing wastes), (4) implement an inventory tracking system used for inventory tracking and recordkeeping, (5) comply with both state and local requirements as to hours of operation, (6) comply with sanitary requirements applicable to employees and production spaces, including sanitation audits, (7) comply with recordkeeping requirements, and (8) maintain and provide procedures for dealing with product recalls.

The MED and local licensing authorities may conduct announced or unannounced inspections of licensees to determine compliance with applicable laws and regulations. Licensees may also be subject to inspection of the licensed premises by the local fire department, building inspector, or code enforcement officer to confirm that no health or safety concerns are present.

Colorado uses METRC as the MED's cannabis inventory tracking system for all medical and adult use licensees. Cannabis is required to be tracked and reported with specific data points from seed to sale through METRC for compliance purposes under Colorado cannabis laws and regulations. This tracking is conducted by using electronic tags on plants and shipments between licensees and facilities.

#### Compliance with United States operations – Colorado

Vertical Peak's management holds a primary responsibility to monitoring compliance of Vertical Peak's operations in the State of Colorado, and in accordance with the Marijuana Code, each of the management and Board members' names of the ultimate beneficial owners appear on the MED-issued license.

As of the date hereof, Vertical Peak holds the RMP License through its 100% owned subsidiary Palo Verde. In addition, Vertical Peak has previously sought and continues to seek legal advice from Holland & Hart LLP, as local external counsel, to ensure that all aspects of the license/permit, products and operations of Vertical Peak and Palo Verde are in compliance with the applicable State of Colorado and local law.

***Summary Of Balance Sheets And Operating Results With Exposure To The U.S. Cannabis-Related Activities***

Vertical Peak's exposure to the U.S. marijuana-related activities through the manufacture and sale of various cannabis consumer products in California and Colorado.

The following is the summary of Vertical Peak's balance sheet exposure to the U.S. cannabis-related activities as at April 30, 2023:

	Subsidiaries	Non-controlling Investments	Total	Percentage (%) exposure to the US cannabis activities
Current Assets	4,638,366	-	4,638,366	97.6%
Non Current Assets	7,141,537	-	7,141,537	92.1%
Total assets	\$11,779,903	\$-	\$11,779,903	94.2%
Current Liabilities	14,049,883	-	14,049,883	68.3%
Non Current Liabilities	933,209	-	933,209	4.1%
Total liabilities	\$14,983,092	\$-	\$14,983,092	34.8%

The following is the summary of operating losses from U.S. cannabis-related activities for the three months ended April 30, 2023:

	Subsidiaries	Non-controlling Investments	Total	Percentage (%) exposure to the US cannabis activities
Sales	\$6,695,540	-	\$6,695,540	100.0%
COGS	\$(3,588,676)	-	\$(3,588,676)	96.6%
Operating expenses	\$(6,365,719)	-	\$(6,365,719)	93.9%
Other Income (expense)	\$(149,339)	-	\$(149,339)	11.79%
Gain on sale of leaseback	\$-	-	\$-	
Finance cost	\$(355,113)	-	\$(355,113)	16.6%
FX Gain (loss)	\$-	-	\$-	0.0%
Impairment of Intangible	\$-	-	\$-	0.0%
Income from investment	\$(2,298,033)	-	\$(2,298,033)	-650.3%

The operating expenses include expenses incurred directly by subsidiaries, amortization for investment properties, intangibles assets, and capital assets. The operating expenses exclude share-based payments and any allocation of expenses incurred at Vertical Peak's head office.

## RISK FACTORS

There are numerous and various risks, known and unknown, that may prevent the Company from achieving its goals. It is believed that these are the factors that could adversely affect the Company's business, financial condition or results of operation. In such case, the trading price of the SVS could decline, and investors could lose all or part of their investment and should be undertaken only by persons whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment.

An investment in the securities of the Company could affect your admissibility to the United States by virtue of business or financial involvement in the legal marijuana industry in Canada or in the United States. Because marijuana remains illegal under United States federal law, those who are not U.S. citizens employed at or investing in legal and licensed U.S. marijuana companies could face detention, denial of entry or lifetime bans from the United States for their business associations with marijuana U.S. businesses. Moreover, marijuana remains a Schedule 1 controlled substance under the U.S. CSA, and the penalties for violating the CSA may include criminal penalties of up to twenty (20) years in prison and/or a fine of up to \$2 million. In addition, the U.S. government can seize and seek the civil forfeiture of the real or personal property used to facilitate the sale of marijuana as well as the money or other proceeds received in connection with such sale. Thus, an investment in these securities could subject the investor to criminal and personal liabilities.

The following is a summary of certain risks of relating to various aspects of the Company, its business, its regulatory environment that could be applicable.

### **Risks Related to the Regulatory Environment**

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. 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 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.

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Company's operations. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Local, State and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws, regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

#### *U.S. Federal Laws*

**The Federal Controlled Substances Act classifies “marijuana” as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under U.S. federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The enforcement of relevant laws is a significant risk.**

The business operations of the Company are dependent on State laws pertaining to the cannabis industry. Continued development of the cannabis industry is dependent upon continued legislative authorization of cannabis at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of cannabis, which would negatively impact the business of the Company.

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

As of the date hereof, to the Company's knowledge, some form of cannabis (medical or adult-use) has been legalized in approximately 37 States, the District of Columbia, and the territories of Guam, U.S. Virgin Islands, Northern Mariana Islands and Puerto Rico; ; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Company's business, results of operations, financial condition or prospects. The state laws are in conflict with the Federal Controlled Substances Act, which makes cannabis use and possession illegal on a national level. The U.S. administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical cannabis. However, there is no guarantee that the current U.S. government administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its shareholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the cannabis industry could detrimentally affect the Company's operations. Local, state and federal medical cannabis laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

#### *United States border crossing*

Investors in the Company and the Company's directors, officers and employees may be subject to travel and entry bans into the United States. Recent media articles have reported that certain Canadian citizens have been rejected for entry into the United States due to their involvement in the cannabis sector.

The majority of persons travelling across the Canadian and U.S. border do so without incident, whereas some persons are simply barred entry one time. The U.S. Department of State and the Department of Homeland Security have indicated that the United States has not changed its admission requirements in response to the legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the United States may be increasing its scrutiny of travelers and their cannabis related involvement.

Admissibility to the United States may be denied to any person working or 'having involvement in' the cannabis industry, according to United States Customs and Border Protection. Inadmissibility in the United

States implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

### *Local regulation could change and negatively impact on the Company's operations*

Most U.S. states that permit cannabis for adult use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult use cannabis businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit cannabis businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such state entirely if alternative facilities cannot be secured.

### *There are risks associated with removal of U.S. Federal Budget Rider Protections*

In May 2018, the House Appropriations Committee approved inclusion of the Rohrabacher-Blumenauer Amendment (“**RBA**”) in the CJS appropriations bill for fiscal year 2019, in a voice vote led by sponsor Rep. David Joyce. The amendment was then renewed through a series of short-term spending bills signed on September 28, 2018, December 7, 2018 and January 25, 2019. On February 15, 2019, the amendment was renewed as part of an omnibus spending bill in effect through September 30, 2019. However, the bill 22 does not afford the same DOJ prohibitions regarding prosecuting conduct and commerce regarding recreational marijuana, which poses a significant risk to the Company’s operations. Moreover, there can be no certainty that Congressional support for the RBA amendment will continue.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state’s recreational cannabis laws.

### *Access to Banking Services*

On March 28, 2019, the House Financial Services Committee approved Secure and Fair Enforcement (SAFE) Banking Act reintroduced by U.S. Sens. Jeff Merkley (D-OR) and Cory Gardner (R-CO). The bill would prevent the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) from taking action against banks or credit unions that serve cannabis-related businesses, prevent those regulators from limiting access to financial institutions by cannabis-related businesses, require the Financial Crimes Enforcement Network (FinCEN) and the Federal Financial Institutions Examination Council (FFIEC) to issue guidance for institutions that provide services to cannabis-related businesses, require reporting by financial regulators and the Government Accountability Office, and impose or increase the cost of private-sector mandates on financial institutions and remove a private right of action against financial institutions.

The Company may have difficulty accessing the service of banks, which may make it challenging to operate efficiently. As the result of U.S. federal prohibitions on cannabis and concerns in the banking industry

regarding money laundering and other federal financial crime related to marijuana, the access to U.S. banking system which include, but not limited to, inability to deposit funds in federally insured and licensed banking institutions have been restricted. Consequently, businesses involved in the cannabis industry often have difficulty finding a bank willing to service their businesses or access to credit card processing services. As a result, cannabis businesses in the U.S. are largely cash-based which complicates the implementation of financial controls and increases security and safety issues. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

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

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the 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), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations 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 there are no current intentions to declare or pay dividends on the SVS or MVS in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

### *Lack of Access to U.S. Bankruptcy Protections*

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Company's United States operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

### *Taxes*

U.S. federal prohibitions on the sale of cannabis may result in the Company not being able to deduct certain costs from its revenue for U.S. federal taxation purposes if the U.S. Internal Revenue Service (IRS) determines that revenue sources of the Company are generated from activities which are not permitted under U.S. federal law. Section 280E of the Internal Revenue Code of 1986 prohibits businesses from deducting certain expenses associated with trafficking-controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

### *The products provided by the Company to Licensed Operators may become subject to regulation governing food and related products*

Should the federal government legalize marijuana for medical or adult use nation-wide, it is possible that the U.S. Food and Drug Administration (“**FDA**”) would seek to regulate the products under the Food, Drug and Cosmetics Act of 1938 or the United States Department of Agriculture (“**USDA**”). The FDA and the USDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical cannabis and cannabis-infused products. Clinical trials may be needed to verify efficacy and safety of the medical marijuana. It is also possible that the FDA would require that facilities where medical marijuana is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event, any of these regulations are imposed, the Company cannot foresee the impact on its operations and economics. If the Company or the Licensed Operators are unable to comply with the regulations and or registration as prescribed by the FDA, USDA or another federal agency, the Company or its suppliers may be unable to continue to operate in its current form or at all.

### *Environmental and employee health and safety regulations*

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations 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.

*Non-compliance with federal, provincial or state laws and regulations, or the expansion of current, or the enactment of new laws or regulations, could adversely affect the Company's business.*

The activities of the Company and the Licensed Operators which the Company conducts business with are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are sold. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products and activities, or the extent of testing and documentation that may be required by 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.

The formulation, manufacturing, packaging, labeling, handling, distribution, importation, exportation, licensing, sale and storage of the Licensed Operators' products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints may exist at the federal, provincial or local levels. There is currently no uniform regulation applicable to natural health products worldwide. There can be no assurance that the Company or its Licensed Operators will remain in compliance with all of these laws, regulations and other constraints, and changes to such laws, regulations and other constraints may have a material adverse effect on operations. The cost of complying with the legal cannabis industry cannot be known until the regulatory environment is made clear. In addition, special taxes or fees on businesses in the cannabis industry may affect the Company's plans to enter the industry. If the Company is unable to respond appropriately to these changing federal and state regulations, it may not be successful in capturing significant market share.

Traditional rules of investing may prove to be imperfect in the cannabis industry. For example, while it would be common for investment managers to purchase equity in companies in different States to reach economies of scale and to conduct business across State lines, such an investment thesis may not be feasible in the cannabis industry because of varying State-by-State legislation. Applicable regulations in many States may require advance disclosure of and approval of State regulators to accomplish an investment. As no two regulated markets in the cannabis industry are exactly the same, doing business across State lines may not be possible or commercially practicable. As a result, the Company may be limited to identifying opportunities in individual States, which may have the effect of slowing the growth prospects of the Company.

#### *Liability for actions of employees, contractors and consultants*

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violate: (i) government

regulations; (ii) manufacturing standards; (iii) U.S. federal fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and they are not successful in defending themselves or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, the curtailment of the Company's operations or asset seizures, any of which could have a material adverse effect on the Company's businesses, financial condition and results of operations.

*The cannabis industry is a new industry that may not succeed.*

Should the U.S. federal government change course and decide to prosecute those dealing in medical or adult-use cannabis under applicable law, there may not be any market for the Company's products and services. It is a new industry subject to extensive regulation, and there can be no assurance that it will grow, flourish or continue to the extent necessary to permit the Company to succeed. The Company is treating the cannabis industry as a deregulating industry with significant unsatisfied demand for its proposed products and will adjust its future operations, product mix and market strategy as the industry develops and matures.

*Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital.*

The Company's business activities rely on newly established and/or developing laws and regulations in the various States in which the Company operates. 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 FDA, Securities and Exchange Commission, the U.S. DOJ, the Financial Industry Regulatory Advisory or other federal, State or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical and/or adult-use purposes in the U.S. 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 ability to raise additional capital, create a public trading market in the U.S. for securities of the Company or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in the Company.

*the Company may be subject to the risk of an inability to enforce its contracts.*

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

## **General Regulatory, Legal and Business Structure Risks**

*The Company's multi-class structure will have the effect of concentrating voting control and the ability to influence corporate matters*

The holders of the MVS, have 10 votes per MVS, whereas the SVS have one vote per SVS. A higher percentage in respect of the election of directors and would therefore have significant influence over the management and affairs of the Company and over all matters requiring shareholder approval, including the election of directors and significant corporate transactions. In addition, because of the 10-to-1 voting ratio between the MVS and SVS, the holders of MVS will control a majority of the combined voting power of the Company's voting shares even though the MVS will represent a substantially reduced percentage of the total outstanding shares of the Company. The concentrated voting control of the holders of MVS will limit the ability of the holders of SVS to influence corporate matters for the foreseeable future, including the election of directors as well as with respect to the Company's decisions to amend its share capital, create and issue additional classes of shares, make significant acquisitions, sell significant assets or parts of its business, merge with other companies and/or undertake other significant transactions. As a result, holders of MVS will have the ability to influence or control many matters affecting the Company and actions may be taken that the holders of SVS may not view as beneficial. The market price of the SVS could be adversely affected due to the significant influence and voting power of the holders of MVS. Additionally, the significant voting interest of the holders of MVS could discourage transactions involving a change of control, including transactions in which an investor, as a holder of the SVS, might otherwise receive a premium for the SVS over the then-current market price, or discourage competing proposals if a going private transaction is proposed by one or more holders of SVS.

*Loss of Foreign Private Issuer status.*

The Company is a "foreign private issuer" ("FPI") as defined in Rule 405 under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), and Rule 3b-4 under the U.S. Securities Exchange Act of 1934, as amended (the "U.S. Exchange Act"). If, as of the last business day of the Company's second fiscal quarter for any year, more than 50% of the Company's outstanding voting securities (as determined under Rule 405 of the U.S. Securities Act) are directly or indirectly held of record by residents of the United States, the Company will no longer meet the definition of an FPI, which may have adverse consequences on the Company's ability to raise capital in private placements or Canadian prospectus offerings. In addition, the loss of the Company's FPI status may result in increased reporting requirements and increased audit, legal and administration costs. These increased costs may significantly affect the Company's business, financial condition and results of operations.

The term "foreign private issuer" is defined as any non-U.S. corporation, other than a foreign government, except any issuer meeting the following conditions:

- (a) more than 50% of the outstanding voting securities of such issuer are, directly or indirectly, held of record by residents of the United States; and
- (b) any one of the following: (i) the majority of the executive officers or directors are United States citizens or residents, or (ii) more than 50% of the assets of the issuer are located in the United States, or (iii) the business of the issuer is administered principally in the United States.

A “holder of record” is defined by Rule 12g5-1 under the U.S. Exchange Act. Generally speaking, the holder identified on the record of security holders is considered as the record holder. In December 2016, the United States Securities and Exchange Commission (the “SEC”) issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes, or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding MVS is counted as one voting security and each issued and outstanding SVS is counted as one voting security for the purposes of determining the 50% U.S. resident threshold, and the Company is a “foreign private issuer”. Should the SEC’s guidance and interpretation change, the Company may lose its FPI status.

*The Company’s operations in the U.S. cannabis market may become the subject of heightened scrutiny.*

For the reasons set forth above, the Company’s existing operations in the U.S., and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada and the U.S. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company’s ability to operate or invest in the U.S. or any other jurisdiction, in addition to those described herein. Given the heightened risk profile associated with cannabis in the U.S., CDS Clearing and Depository Services Inc. (“CDS”) may implement procedures or protocols that would prohibit or significantly curtail the ability of CDS to settle trades for cannabis companies that have cannabis businesses or assets in the U.S. On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (“TMX MOU”) with the Neo Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of SVS and MVS to make and settle trades. In particular, SVS and MVS would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of SVS and MVS through the facilities of a stock exchange. In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice setting out their disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. The Staff Notice confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. The Staff Notice includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views the Staff Notice favorably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company’s ability to pursue further investment and opportunities in the Company. Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the U.S. or elsewhere. A negative shift in the public’s perception of medical and/or adult-use cannabis in the U.S. or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause State jurisdictions to abandon initiatives or proposals to legalize

medical and/or adult-use cannabis, thereby limiting the number of new State jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may result in a material adverse effect on the Company's business, financial condition, results of operations or prospects.

*The Company may be subject to the risk of changes in Canadian laws or regulations, or a failure to comply with any such laws and regulations*

The Company is subject to laws and regulations enacted by the federal and provincial governments of Canada. In particular, the Company will be required to comply with certain Canadian securities law, income tax law and the CSE and other legal and regulatory requirements. Compliance with, and monitoring of, applicable laws and regulations may be difficult, time consuming and costly. Those laws and regulations and their interpretation and application also may change from time to time and those changes could have a material adverse effect on the Company's business, investments and results of operations. In addition, a failure to comply with applicable laws or regulations, as interpreted and applied, could result in a material adverse effect on the Company's business, financial condition, results of operations or prospects.

*Holding company*

As a holding company with no material assets other than the stock of the Company's operating subsidiaries and intellectual property, nearly all of the Company's funds generated from operations are generated by the Company's operating subsidiaries. The Company's subsidiaries are subject to requirements of various regulatory bodies, both domestically and internationally. Accordingly, if the Company's operating subsidiaries are unable, due to regulatory restrictions or otherwise, to pay the Company's dividends and make other payments to the Company when needed, the Company may be unable to satisfy the Company's obligations when they arise.

*Risks related to conflicts of interest.*

The Company engages in the business of identifying and combining with one or more businesses. The Company's officers and directors may now be, or may in the future become, affiliated with entities that are engaged in a similar business.

The Company's officers and directors also may become aware of business opportunities which may be appropriate for presentation to the Company and the other entities to which it owes duties. In the course of its other business activities, the Company's officers and directors may owe similar or other duties, and may have obligations, to other entities or pursuant to other outside business arrangements, including seeking and presenting investment and business opportunities. Accordingly, they may have conflicts of interest in determining to which entity a particular business opportunity should be presented. These conflicts may not be resolved in the Company's favor, as the Company's officers and directors are not required to present investment and business opportunities to the Company in priority to other entities with which they are affiliated or to which they owe duties.

The Company has not adopted a policy that expressly prohibits its directors, officers, security holders, affiliates or associates from having a direct or indirect financial interest in any investment to be acquired or disposed of by the Company or in any transaction to which it is a party or has an interest. In fact, even though it is not the Company's current intentions to do so, they may enter into a transaction with a target business that is affiliated with the Company's directors or officers.

*The Company is subject to the costs of being a public company.*

As a public issuer, the Company is subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Company's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Company's legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems and resources, which could adversely affect its business and financial condition.

*Certain remedies may be limited to the Company.*

Pursuant to its governing documents, the Company and the shareholders of the Company may be prevented from recovering damages for alleged errors or omissions made by the members of the Company's board of directors and its officers. The Company's governing documents also provide that the Company will, to the fullest extent permitted by law, indemnify members of the Company's board of directors and its officers for certain liabilities incurred by them by virtue of their acts on behalf of the Company.

*The Company may have difficulty enforcing judgments and effecting service of process on directors and officers and principals of the Licensed Operators*

Certain directors and officers of the Company reside outside of Canada. Most or all of the assets of such persons may be located outside of Canada. Therefore, it may not be possible for the Company's shareholders to collect or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against such persons. Moreover, it may not be possible for the Company shareholders to effect service of process within Canada upon such persons.

## **Risks Related to the Business of the Company and the Industry in which it Operates**

### *Limited operating history*

The Company has a limited history of operations, is in the early stage of development. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company has no history of earnings. Because the Company has a limited operating history in emerging area of business, you should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy.
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements.
- risks that its growth strategy may not be successful.
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

### *Reliance on securing agreements with Licensed Operators*

The regulatory framework in some US states restricts the Company from obtaining a License to grow, store and sell marijuana products. As such, in those US states the Company relies on securing agreements with Licensed Operators in the targeted jurisdictions that have been able to obtain a License with the appropriate regulatory authorities. Failure of a Licensed Operators to comply with the requirements of their License or any failure to maintain their License would have a material adverse impact on the business, financial condition and operating results of the Company. Should the regulatory authorities not grant a License or grant a License on different terms unfavorable to the Licensed Operators, and should the Company be unable to secure alternative Licensed Operators, the business, financial condition and results of the operation of the Company would be materially adversely affected.

If the U.S. federal government changes its approach to the enforcement of laws relating to cannabis, the Company would need to seek to replace those tenants with non-cannabis tenants, who would likely pay lower rents. It is likely that the Company would realize an economic loss on its capital acquisitions and improvements made to its capital assets specific to the cannabis industry, and the Company would likely lose all or substantially all of its investments in the markets affected by such regulatory changes.

*Epidemic diseases, such as recent outbreak of the COVID-19 illness*

The recent outbreak of novel coronavirus, specifically identified as “COVID-19”, has been declared a global pandemic by the World Health Organization in March 2020. The outbreak has spread across the globe and is impacting worldwide economic activity. A public health epidemic, including COVID-19, poses the risk that the Company, our employees, contractors, suppliers and partners may be prevented from conducting business activities for an indefinite period of time due to shutdowns that are either self-imposed or mandated by the governmental authorities. Specifically, the COVID-19 outbreak may have an adverse impact on global economic conditions which could have an adverse effect on our business and financial condition. The extent, to which the COVID-19 outbreak impacts our financial results, will depend on future developments that are currently uncertain and cannot be predicted.

*The Company currently has insurance coverage; however, because the Company operates within the cannabis industry, there additional difficulties and complexities associated with such insurance coverage.*

The Company believes that it and its subsidiaries currently have insurance coverage with respect to directors and officers, workers’ compensation, general liability, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the Company is engaged in and operates within the cannabis industry, there are exclusions and additional difficulties and complexities associated with such insurance coverage that could cause the Company to suffer uninsured losses, which could adversely affect the Company’s business, results of operations, and profitability. There is no assurance that the Company will be able to fully utilize such insurance coverage, if necessary.

*Proposed Acquisitions and Dispositions*

The proposed acquisitions and dispositions are subject to certain conditions, many of which are outside of the control of the Company and there can be no assurance that they will be completed, on a timely basis or at all. As a consequence, there is a risk that one or more of the proposed acquisitions or dispositions will not close in a timely fashion or at all. If one or more of the proposed acquisitions or dispositions is not completed for any reason, the ongoing business of the Company may be adversely affected and, without realizing any of the benefits of having completed such transactions, the Company will be subject to a number of risks, including, without limitation, the Company may experience negative reactions from the financial markets, including negative impacts on the Company’s stock price, in the case of a proposed acquisition, the Company will need to find an alternative use of any proceeds earmarked for such proposed acquisitions, in the case of a proposed disposition, the Company will not receive the anticipated proceeds of such disposition and accordingly may not be able to execute on other business opportunities for which such proceeds have been earmarked, and matters relating to the proposed acquisitions and dispositions will require substantial commitments of time and resources by management of the Company which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to the Company. If one or more of the proposed acquisitions or dispositions are not completed, the risks described above may materialize and they may adversely affect the business, results of operations, financial condition and prospects and stock price of the Company.

*The Company is dependent on intellectual property, and failure to protect the rights to use that intellectual property could adversely the Company's future growth and success.*

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. As a result, intellectual property of the Company's U.S. investments 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 the businesses in which it invests will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

The Company's failure to protect its existing intellectual property rights may result in the loss of exclusivity or the right to use the brands and technologies to which the Company has acquired or internally developed. If the Company does not adequately ensure the freedom to use this intellectual property the Company may be subject to damages for infringement or misappropriation, and/or be enjoined from using such intellectual property. In addition, it may be difficult for the Company to enforce certain of its intellectual property rights against third parties who may have inappropriately acquired interests in the Company's intellectual property rights by filing unauthorized trademark applications in foreign countries to register the Company's marks because of their familiarity with our business in the United States. See "Business Overview – Products and Services – Brands and Intellectual Property". Any potential intellectual property litigation could result in significant expense to the Company, adversely affect the development of sales of the challenged product or intellectual property and divert the efforts of the Company's technical and management personnel, whether or not such litigation is resolved in the favor of the Company. In the event of an adverse outcome in any such litigation, the Company may, among other things, be required to: pay substantial damages; cease the development, manufacture, use, sale or importation of products that infringe upon other patented intellectual property; expend significant resources to develop or acquire non-infringing intellectual property; discontinue processes incorporating infringing technology; or obtain licenses to the infringing intellectual property.

#### *Reliance on third-party suppliers, manufacturers and contractors*

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and U.S., the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results. Such third parties may include but not limited to: suppliers, contractors, business service providers, financial service providers, depository and clearing service providers.

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges may refuse to enforce contracts in connection with activities that violate federal law, even if there is no violation of state law. There remains doubt and uncertainty that the Company will be able to legally enforce contracts it enters into if necessary. The Company cannot be assured that it will have a remedy for breach of contract, the lack of which may have a material adverse effect on the Company's business, revenues, operating results, financial condition or prospects.

### *Product liability, operational risk*

As a licensing company (in the case of the Company) and a manufacturer and distributor of products (in the case of Licensed Operators and the Company) designed to be ingested by humans, the Licensed Operators and the Company face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of Cannabis-Infused Products based on the Company's recipes and brands involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's and the Licensed Operator's products alone or in combination with other medications or substances could occur.

### *Recent Announcements and Risks Regarding Vaporizer Products.*

On March 13, 2019, the FDA issued draft guidance which proposes to modify the current compliance policy for certain deemed tobacco products that qualify as “new tobacco products”. Relevant to vaping products, the document proposes to change the deadline for submitting a marketing application for flavoured products, which can include flavoured products containing cannabis. In September 2019, President Trump announced that the sale of most flavoured e-cigarettes would be banned by the FDA, but since has rescinded his position after meeting with industry in November 2019. Certain health problems have been linked to the inhalation of e-liquids. There may be governmental and private sector actions aimed at reducing the incidence of vaping and/or seeking to hold manufacturers of e-liquids responsible for the adverse health effects associated with the use of vaping products. These actions, combined with potential deterioration in the public's perception of e-liquids, may result in a reduced market for the Company's vaporizer products. While the Company does deal directly in e-liquids it does have vaporizer products. Certain chemicals used in vaporizer products, including Vitamin E acetate, polyethylene glycol (PEG), propylene glycol (PG), vegetable glycerin and medium chain triglycerides have been linked to certain health problems. The Company does not use any of these chemicals in its products. Federal, state and local regulations or actions that prohibit or restrict the sale of the Company's vaporizer products, or that decrease consumer demand or the Company's products by prohibiting their use, raising the minimum age for their purchase, raising their prices to unattractive levels via taxation, or banning their sale could adversely impact the financial condition and results of operations of the Company.

### *Product recalls*

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company and sold by Licensed Operators are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. In addition, a product recall may require significant management attention and could harm the image of the brand and Company.

### *Uninsurable risks*

Medical and adult-use cannabis businesses are subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company.

*The Market Price of Securities is volatile and may not accurately reflect the long-term value of the Company*

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of SVS to sell their securities at an advantageous price. Market price fluctuations in the SVS may be due to the Company's operating results or its U.S. investees' operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the SVS.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the SVS may decline even if the Company's investment results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the SVS may be materially adversely affected.

*Additional financing*

The Company may need to raise significant additional funds in order to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing in order to meet its plans for expansion. There is no certainty that additional financing, if needed, will be available on acceptable terms, or at all.

Access to public and private capital and financing continues to be negatively impacted by the federal illegality of cannabis in the United States. Although the Company has had success completing public and private capital in the past, the Company's ability to obtain debt and/or equity financing in the future on favorable terms or obtain any financing at all cannot be guaranteed.

Furthermore, any debt financing, if available, may involve restrictive covenants and granting of security against assets of the Company, which may limit its operating flexibility with respect to business matters as well as may make it more difficult for the Company to obtain additional capital. The Company will require additional financing to fund its operations until anticipated positive cash flow is achieved.

If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders.

*Risks Affecting the real estate industry*

The Company is subject to risks generally associated with ownership of real estate, including: (a) changes in general economic or local conditions; (b) changes in supply of, or demand for, similar or competing properties in the area; (c) bankruptcies, financial difficulties or defaults by tenants or other parties (including Licensed); (d) increases in operating costs, such as taxes and insurance; (e) the inability to achieve full stabilized occupancy at rental rates adequate to produce targeted returns; (f) periods of high interest rates and tight money supply; (g) excess supply of rental properties in the market area; (h) liability for uninsured losses resulting from natural disasters or other perils; (i) liability for environmental hazards; and (j) changes in tax, real estate, environmental, zoning or other laws or regulations. There is no assurance that the Company's investments will yield an economic profit.

Weakness in regional and national economies could materially and adversely impact the Licensed leasing the real estate properties that the Company's may acquire in the future. If the Licensed Operators suffer a business disruption or the Company's ability to collect the rents from those parties may be limited, and the recourse available to the Company can be limited. As such, this may hinder the Company's ability to service its financial obligations, and in some cases, may lead to complete loss of the Company's assets if its lenders were to foreclose.

*The Company may be vulnerable to unfavorable publicity or consumer perception*

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

*Illegal drug dealer could pose threats*

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana in the United States, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized cannabis businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

*Reliance on Management, Board and Other Members of the Leadership Team*

The Company's operations are dependent upon a relatively small group of individuals and, in particular, its officers and directors. The Company believes that its success will depend on the continued service of its officers and directors. In addition, the Company's officers and directors are not required to commit any specified amount of time to the Company's affairs and, accordingly, may have conflicts of interest in allocating management time among various business activities, including identifying potential acquisitions and monitoring the related due diligence. The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating

results, financial condition or prospects. The Company does not have key-man insurance on the life of any of its directors or officers. The unexpected loss of the services of one or more of its directors or officers could have a detrimental effect on the Company, its operations and its ability to make acquisitions.

#### *Factors which may prevent realization of growth targets*

The Company is currently in the early development stage. There is a risk that additional resources will be needed, and milestones will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company and its Licensed Operators:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

#### *Risks associated with increasing competition*

The cannabis industry is highly competitive. The Company will compete with numerous other businesses in the medicinal and adult use industry, many of which possess greater financial and marketing resources and other resources than the Company. The marijuana business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labour, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

The Company expects to face additional competition from new entrants. If the number of legal users of marijuana in its target jurisdiction increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

#### *Difficult to forecast*

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in Canada and the U.S. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

#### **Management of growth**

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage

its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

#### *Dividends*

The Company has no earnings or dividend record and does not anticipate paying any dividends on the SVS or MVS in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

*The Company may be subject to market price volatility risks.*

The market price of the SVS may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the SVS.

*There is a limited market for the SVS*

Notwithstanding that the SVS are listed on the CSE (and excluding the MVS which are not listed securities), there can be no assurance that an active and liquid market for such SVS will develop or be maintained and the Company's shareholders may find it difficult to resell any securities of the Company.

*The Company may be subject to the risks posed by sales by existing shareholders*

Sales of a substantial number of SVS (and excluding the SVS which are not listed securities) in the public market could occur at any time by existing holders of such SVS. These sales, or the market perception that the holders of a large number of SVS intend to sell SVS, could reduce the market price of the SVS. If this occurs and continues, it could impair the Company's ability to raise additional capital through the sale of securities.

#### *Currency exchange rates*

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the United States using U.S. Dollars. The Company's financial results are reported in Canadian Dollars and costs are incurred primarily in U.S. Dollars. The depreciation of the Canadian Dollar against the U.S. Dollar could increase the actual capital and operating costs of the Company's U.S. operations and materially adversely affect the results presented in the Company's financial statements.

*The Company has limited control over the operations and activities of the Licensed Operators.*

In certain instances, the Company has limited control under the license agreements over the operations and activities of the Licensed Operators that it does not control or have a significant influence over. Since the income of the Company will be highly dependent upon the activities and operations of the Licensed Operators and any other agreement with such Licensed Operators, any substantial alteration of the Licensed Operators' business, operations, or production could adversely affect the income of the Company.

*Default by the Licensed Operators under the agreements with the Company could have a material impact on the Company.*

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

*Scientific research related to the benefits of marijuana remains in early stages, is subject to a number of important assumptions and may prove to be inaccurate.*

Research in Canada, the United States and internationally regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated cannabinoids remains in early stages. To the Company's knowledge, there have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids. Any statements concerning the potential medical benefits of cannabinoids are based on published articles and reports. As a result, any statements made herein are subject to the experimental parameters, qualifications, assumptions and limitations in the studies that have been completed.

Although the Company believes that the articles and reports, and details of research studies and clinical trials that are publicly available reasonably support its beliefs regarding the medical benefits, viability, safety, efficacy and dosing of cannabis, future research and clinical trials may prove such statements to be incorrect or could raise concerns regarding and perceptions relating to cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this document or reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could materially impact the Company.

*Negative publicity or consumer perception may affect the success of the Company's business.*

The success of the marijuana industry may be significantly influenced by the public's perception of marijuana. Both the medical and recreational use of marijuana are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to marijuana will be favourable. The marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and recreational marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of marijuana, whether in Canada, the United States or elsewhere, may have a material adverse effect on our operational results, consumer base and financial results. Among other things, such a shift in public opinion could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could identify potential acquisition opportunities.

*Certain events or developments in the cannabis industry more generally may impact the Company's reputation.*

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of the Company. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other

users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regard to the Company and its activities, whether true or not and the cannabis industry in general, whether true or not. The Company does not ultimately have direct control over how it or the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse impact on the Company.

#### *Negative Cash Flow*

The Company has not generated positive cash flows from operating activities. As a result of the Company's negative cash flow from operating activities, the Company continues to rely on the issuance of securities or other sources of financing to generate the funds required to fund its business. The Company may continue to have negative operating cash flow for the foreseeable future.

#### *Service providers could suspend or withdraw service to the Company*

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

#### *The Company may be subject to the risk of litigation*

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the SVS and MVS. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

#### *The Company may be subject to risks related to security breaches.*

Given the nature of the Company's product and its lack of legal availability outside of channels approved by the Government of the United States, as well as the concentration of inventory in its facilities, despite meeting or exceeding all legislative security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

In addition, the Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations or prospects.



*The Company may be subject to the risks of leverage.*

The Company anticipates utilizing leverage in connection with the Company's investments in the form of secured or unsecured indebtedness. Although the Company will seek to use leverage in a manner it believes is prudent, such leverage will increase the exposure of an investment to adverse economic factors such as downturns in the economy or deterioration in the condition of the investment. If the Company defaults on secured indebtedness, the lender may foreclose and the Company could lose its entire investment in the security of such loan. If the Company defaults on unsecured indebtedness, the terms of the loan may require the Company to repay the principal amount of the loan and any interest accrued thereon in addition to heavy penalties that may be imposed. Because the Company may engage in financings where several investments are cross-collateralized, multiple investments may be subject to the risk of loss. As a result, the Company could lose its interest in performing investments in the event such investments are cross-collateralized with poorly performing or nonperforming investments.

In addition to leveraging the Company's investments, the Company may borrow funds in its own name for various purposes, and may withhold or apply from distributions amounts necessary to repay such borrowings. The interest expense and such other costs incurred in connection with such borrowings may not be recovered by income from investments purchased by the Company. If investments fail to cover the cost of such borrowings, the value of the investments held by the Company would decrease faster than if there had been no such borrowings. Additionally, if the investments fail to perform to expectation, the interests of investors in the Company could be subordinated to such leverage, which will compound any such adverse consequences.

*Reliance on management services agreement could adversely affect prospects and results.*

The Company provides administrative, consulting, and operations services to DW27 and SDI, pursuant to DW27 MSA and SDI MSA governed by State of California law. The Company's key source of revenue is dependent on the continuing validity and enforceability of such service agreements. If such agreements are found to be invalid or unenforceable or is terminated by the counterparty, this could have a material adverse effect on the business, prospects, financial condition, and operating results. If ultimate approval of license transfers is not able to be obtained, this could have a material adverse effect on the Company.

*The Company and the Licensed Operators that it conducts business with may be vulnerable to attacks on privacy systems, cyber-attacks and security of sensitive information.*

The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. Throughout the Company's operations, the Company receives, retains and transmits certain confidential information, including personally identifiable information that the Company's customers provide to purchase products or services, interact with the Company's personnel, or otherwise communicate with the Company.

A privacy breach may occur through procedural or process failure, IT malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly customer lists and preferences,

is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations. the Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future.

The theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property or interference with our IT systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, loss of employee confidence, violation of privacy laws, loss of customers, potential liability and competitive disadvantage. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices is designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

## **Internal Control over Financial Reporting**

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

## **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at July 31, 2022 covered by this management's discussion and analysis, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## **Cautionary Note Regarding Forward Looking Statements**

This Management's Discussion and Analysis includes “forward-looking statements”, within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking Statements are often, but not always, identified by the use of words such as “seek”, “anticipate”, “budget”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include, without limitation: the intention to grow the business and operations of the Company; statements regarding expected changes in laws and enforcements in the United States; statements related to the effect and consequences of certain regulatory initiatives and related announcements, and the impact thereof for shareholders, industry participants and other stakeholders; the Company's investments in the United States, the characterization, and consequences of those investments under federal law, and the framework for the enforcement of medical cannabis and cannabis related offenses in the United States; the grant and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof; the anticipated future gross margins of the Company's operations. These statements involve known and unknown risks, uncertainties and other factors

that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks are set out in “Risk Factors” of this MD&A. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained herein are made as of March 27, 2023 and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary Statement.

### **Management's Responsibility for Financial Information**

Management is responsible for all information contained in this report. The Interim financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate, and assets are safeguarded.

The Audit Committee has reviewed the consolidated interim financial statements with management. The Board of Directors has approved the consolidated interim financial statements on the recommendation of the Audit Committee.

June 29, 2023

Michael Willetts  
Chief Financial Officer