



## **Annual Information Form**

For the Year Ended July 31, 2021

Dated November 18, 2021

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**1933 Industries Inc. (the "Company") is directly involved in the United States cannabis industry insofar as its business activities include the cultivation, production, manufacturing and distribution of cannabis and CBD-infused products (as defined herein) where use of cannabis is legal for medical and/or recreational purposes, as applicable.**

**While some states in the United States have authorized the use and sale of cannabis, it remains illegal under federal law and the approach to enforcement of U.S. federal laws against cannabis is subject to change. Because the Company engages in cannabis-related activities in the United States, it assumes certain risks due to conflicting state and federal laws. The federal law relating to cannabis could be enforced at any time and this would put the Company at risk of being prosecuted and having its assets seized.**

**Given the current illegality of cannabis under United States federal law, the Company's ability to access both public and private capital may be hindered by the fact that certain financial institutions are regulated by the United States federal government and are thus prohibited from providing financing to companies engaged in cannabis related activities. The Company's ability to access public capital markets in the United States is directly hindered as a result. The Company may, however, be able to access public and private capital markets in Canada in order to support continuing operations.**

**The Company's investments in the United States cannabis market may subject the Company to heightened scrutiny by regulators, stock exchanges, clearing agencies and other U.S. and Canadian authorities. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the issuer's ability to operate in the United States or any other jurisdiction.**

**For more information regarding the foregoing and the other risk factors applicable in respect of an investment in the Company, please see "*Description of the U.S. Legal Cannabis Industry*" and "*Risk Factors*".**

## GENERAL

The Annual Circular, the Special Circular, the Financial Statements, MD&As and Prospectus are incorporated by reference into this AIF and are available for review on SEDAR located at [www.sedar.com](http://www.sedar.com).

Unless otherwise noted herein, information in this AIF applies to the business activities and operations of the Company for the year ended July 31, 2021. Unless otherwise indicated, references to "\$" are to Canadian dollars.

All references in this AIF to the Company or 1933 Industries also include references to all subsidiaries of the Company as applicable, unless the context requires otherwise.

## CAUTION REGARDING BUSINESS

The Company operates in the Medical and Recreational Cannabis industries in the United States, and specifically in the State of Nevada. The Company is also exploring opportunities in the Medical and Recreational Cannabis industry in other jurisdictions. A majority of U.S. States have legalized Medical Cannabis. A small number of U.S. States have further legalized the recreational use of cannabis. THC and cannabis remain a controlled Schedule 1 drug under U.S. Federal Law although the federal government's position has been not to enforce these laws in states that have regulations in place. The Company's objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the cannabis industry as well as the developing market for non-regulated industrial hemp and CBD-infused products market in the United States.

This Annual Information Form relates to the business of an entity that directly derives a substantial portion of its revenues by growing, packaging, and selling cannabis in the State of Nevada.

The Company's CBD-infused products segment is solely focused on the U.S. market. CBD-infused products (such as food and consumer items infused with certain non-psychoactive components of hemp, a member of the cannabis family) are sold in States where CBD-infused products are permitted by state law and regulation when shown to be derived from industrial hemp, legal for nationwide distribution. Under the U.S. Controlled Substance Act of 1970 (the "CSA"), the policies and regulations of the United States Federal Government and its agencies are that THC and cannabis has a high potential for abuse, no accepted medical benefit and a lack of safety for the use of the drug under medical supervision. A range of activities including cultivation and the personal use of cannabis is prohibited, unless and until the United States Congress amends the CSA with respect to THC and cannabis. The timing or scope of any such potential amendments are not assured and there is a risk that federal authorities may enforce current federal law, and the business of the Company may be deemed to be producing, cultivating or dispensing THC or cannabis in violation of federal law in the United States.

There are a number of risks associated with the business of the Company. See the sections entitled "*Description of the U.S. Legal Cannabis Industry*" and "*Risk Factors*" for a detailed list of further risk factors.

## FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements in this AIF may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this AIF, such statements use such words as "will", "may", "could", "intends", "potential", "plans", "believes", "expects", "projects", "estimates", "anticipates", "continue", "potential", "predicts" or "should" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this AIF. Forward-looking statements include, among others, statements with respect to:

- the Company's expected future losses and accumulated deficit levels;
- the requirement for, and the Company's ability to obtain, future funding on favourable terms or at all;
- market competition and agricultural advances of competitive products;
- the Company's expectations regarding the timing for availability of the Company's products and acceptance of its products by the market;
- the Company's strategy to develop new products and to enhance the capabilities of existing products;
- the Company's dependence on expanding its production and customer base;
- the Company's plans to market, sell and distribute its products;
- the Company's plans in respect of strategic partnerships for research and development;
- the Company's plans to retain and recruit personnel; and
- the Company's strategy with respect to the protection of its intellectual property.

Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "**Risk Factors**". Although the forward-looking statements contained in this AIF are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements and should not be unduly relied upon by investors. These forward-looking statements are made as of the date of this AIF. A number of factors could cause actual events, performance or results, including those in respect of the foregoing items, to differ materially from the events, performance and results discussed in the forward-looking statements. Factors that could cause actual events, performance or results to differ materially from those set forth in the forward-looking statements include, but are not limited to:

- the extent of future losses;
- the ability to obtain the capital required to fund development and operations;



- the development and growth of the medical cannabis industry in general;
- the ability to capitalize on changes to the marketplace;
- the ability to comply with applicable governmental regulations and standards;
- the ability to develop and commercialize Medical Cannabis and Recreational Cannabis in the United States;
- the ability to attract and retain skilled and experienced personnel;
- the impact of changes in the business strategies and development priorities of strategic partners;
- the impact of legislative changes to the Medical Cannabis and Recreational Cannabis regulatory process;
- general public acceptance of the cannabis industry;
- the impact of changes in the number of cannabis users in the United States;
- the yield from agricultural operations producing the Company's products;
- the ability to obtain legal protection and protect the Company's intellectual property rights and not infringe on the intellectual property rights of others;
- the impact of the COVID-19 pandemic;
- stock market volatility; and
- other risks detailed from time-to-time in the Company's ongoing quarterly and annual filings with applicable securities regulators, and those which are discussed under the heading "*Risk Factors*".

Readers should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. Readers are cautioned that the foregoing lists of factors are not exhaustive. Each of the forward-looking statements contained in this AIF are expressly qualified by this cautionary statement. The Company expressly disclaims any obligation or responsibility to update the forward-looking statements in this AIF except as otherwise required by applicable law.

## GLOSSARY OF TERMS

The following is a glossary of certain terms used in this AIF, including the Appendices attached hereto.

"**1080034 Shareholders**" means the holders of common shares of 1080034;

"**1080034 Shares**" means all of the issued and outstanding common shares of 1080034;

"**1080034**" means 1080034 BC Ltd., a corporation incorporated under the BCBCA;

"**1933 Management Services**" means a wholly-owned subsidiary of the Company incorporated under Nevada law, formerly known as FN Management Services; serves as the company's

“management” entity and employs the company’s US management team. It also owns 100% of Infused MFG LLC.

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**AMA**" means Alternative Medicine Association LC, a Nevada limited liability company;

“**AMA Production LLC**” is a real estate holding company. It owns 5035 Geist Ave, Las Vegas, Nevada, and has no employees or operations.

"**Applicable Canadian Securities Laws**" means, collectively, and as the context may require, the applicable securities legislation of each of the provinces and territories of Canada, and the rules, regulations, instruments, orders and policies published and/or promulgated thereunder, as such may be amended from time to time;

"**BC Acquisition**" means the acquisition of 1080034 pursuant to which the 1080034 Shareholders received the BC Consideration Shares;

"**BC Consideration Shares**" means 45,425,001 Common Shares issued to the 1080034 Shareholders pursuant to the PSA on closing of the BC Acquisition;

"**BCBCA**" means the *Business Corporations Act*, S.B.C. 2002, c. 57, as amended, including the regulations promulgated thereunder;

"**Board of Directors**" or "**Board**" means the board of directors of the Company as it may be comprised from time to time;

"**Cannabis Concentrate**" means a specific subset of cannabis that is produced by extracting cannabinoids from cannabis by a method including solvents such as butane or propane, or by other extraction methods including but not limited to use of water, ice, dry ice or propylene glycol, glycerin, butter, olive oil or other typical cooking fats;

"**Cannabis**" means all parts of the plant of the genus cannabis, the seeds thereof, the resin extracted from any part of the plant, and every compound, manufacture, salt, derivative, mixture, or preparation of the plant, its seeds, or its resin. "Cannabis" does not include industrial Hemp, nor does it include fiber produced from stalks, oil, or cake made from the seeds of the plant, sterilized seed of the plant which is incapable of germination, or the weight of any other ingredient combined with cannabis to prepare topical or oral administrations, food, drink, or other product;

"**Cash Purchase Price**" means a cash payment to the Members in the amount of US\$3.4 million pursuant to the MIPSAs on closing of the Nevada Acquisition;

"**CBD**" means cannabidiol, the principal non-psychoactive constituent of the cannabis plant;

"**CBD-Infused Products Segment**" means the Company's business segment focused on developing and acquiring products (including formulae and recipes) and brands for its CBD-Infused Products lines;

"**CBD-Infused Products**" means products infused with Hemp-based CBD for medical, therapeutic or recreational adult use in jurisdictions where permitted by the applicable regulatory authorities that are intended for use or consumption other than by smoking, including but not limited to edible products, topical, dietary supplements, cosmetics, tinctures, sauces, vaporizer pen cartridges, drink additives, baking items and sweeteners;

"**Cole Memorandum**" means the memorandum dated August 29, 2013 addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the United States;

"**Common Shares**" means the common shares in the capital of the Company;

"**Company**" means 1933 Industries Inc., formerly Friday Night Inc., a corporation continued incorporated under the *Business Corporations Act* (British Columbia);

"**COVID-19**" means coronavirus disease 2019, an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).

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

"**CSA**" means the U.S. Controlled Substance Act of 1970;

"**DHHS**" means the State of Nevada's Department of Health and Human Services, under the Executive Branch of the State of Nevada, which is charged with promoting the health and well-being of Nevada residents.

"**DPBH**" means the State of Nevada's Division of Public and Behavioral Health of the DHHS, whose mission is to protect, promote and improve the physical and behavioral health of the people of Nevada.

"**FinCEN**" means the Financial Crimes Enforcement Network, a bureau of the United States Department of the Treasury, that collects and analyzes information about financial transactions in order to combat domestic and international money laundering, terrorist financing and other financial crimes;

"**FN Pharmaceuticals**" means a wholly-owned subsidiary of the Company incorporated under Nevada law which owns 91% of Alternative Medicine Association LC, and 100% of AMA Production LLC. FN Pharmaceuticals is a holding company and has no employees or operations.

"**GAAP**" means Canadian generally accepted accounting principles;

"**Harvest Foundation**" means Harvest Foundation LLC, a Nevada limited liability company;

"**Hemp**" means the variety of industrial hemp from cannabis sativa plants that does not contain more than 0.3% THC.

"**IMPSA**" means the membership interest purchase and sale agreement pursuant to which the Company, through its wholly-owned subsidiary following the BC Acquisition, 1080034,

acquired the Infused Membership Interest in exchange, in part, for Cash Purchase Price and the Nevada Consideration Shares;

**"Infused"** means Infused MFG LLC, a Nevada limited liability company;

**"Infused Members"** means the holders of Infused Membership Interests;

**"Infused Membership Interest"** means a one hundred percent (100%) interest in Infused;

**"License"** means a license obtained by operators, from applicable U.S. State authorities to cultivate, sell or manufacture cannabis or CBD-Infused Products.

**"Licensed Operators"** means a business or an individual which holds a valid License under applicable regulation in the respective U.S. State;

**"Medical Cannabis"** means cannabis that is grown and sold to approved medical patients pursuant to applicable State specific laws and regulations for medical purposes (as opposed to recreational purposes);

**"Medical Cannabis Segment"** means the Company's business segment focused on serving the end users of Medical Cannabis in the United States;

**"Members"** means the holders of Membership Interests in AMA;

**"Membership Interest"** means a 91 percent membership interest in AMA;

**"MIPSA"** means the Membership Interest purchase and sale agreement pursuant to which the Company, through its wholly-owned subsidiary, acquired the Membership Interest in exchange for Cash Purchase Price and the Nevada Consideration Shares;

**"Nevada Acquisition"** means the acquisition of the Membership Interest and Infused Membership Interest pursuant to the MIPSA and IMIPSA;

**"Nevada Consideration Shares"** means 60,000,000 Common Shares issued to the AMA Members and 2,000,000 Common Shares issued to the Infused Members pursuant to the MIPSA and IMIPSA on closing of the Nevada Acquisition;

**"Option Plan"** means the Company incentive stock option plan;

**"Options"** means all outstanding options granted pursuant to the Option Plan;

**"PSA"** means the purchase and sale agreement between 1080034 Shareholders and the Company pursuant to which the Company completed the BC Acquisition;

**"Recreational Cannabis"** means cannabis that is grown and sold to adults over the age of 21 for recreational use, pursuant to applicable State specific laws and regulations;

**"Securities Act"** means the *Securities Act* (Alberta);

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com);

"**Shareholders**" means the holders of Common Shares;

"**Spire**" means Spire Secure Logistics Inc.;

"**Subsidiary**" has the meaning ascribed thereto in the Securities Act (and shall include all trusts or partnerships directly or indirectly owned by and subsidiary);

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;

"**THC**" means Tetrahydrocannabinol, the principal psychoactive constituent of the cannabis plant;

"**TSXV**" means the TSX Venture Exchange Inc.;

"**U.S.**" means the United States of America;

"**U.S. State**" or "**State**" means one of the 50 constituent political entities of the United States of America that shares its sovereignty with the United States federal government;

## **CORPORATE STRUCTURE**

### **Name and Incorporation**

1933 Industries Inc. ("1933 Industries" or the "Company") was incorporated in Alberta as "LeBoldus Capital Inc." under the ABCA on January 29, 2008 and completed its initial public offering on July 10, 2008 as a capital pool company. On October 14, 2010, the Company changed its name from "LeBoldus Capital Inc." to "Viper Gold Ltd". On February 17, 2015 the Company filed articles of amendment consolidating its shares on a 10-for-1 basis. On November 23, 2015, Viper Gold Ltd., completed the acquisition of QuikFlo Technologies Inc., a private Alberta company, and filed articles of amendment to change its name to "QuikFlo Health Inc." The Company changed its name to "Friday Night Inc." on June 12, 2017 following a reverse takeover transaction, and consolidated its shares on a 2-for-1 basis. On September 26, 2018, the Company continued into British Columbia under the *Business Corporations Act* (British Columbia) and concurrently changed its name to 1933 Industries Inc.

The Company is a reporting issuer in the Provinces of Alberta, British Columbia, Saskatchewan and Ontario. The Shares are listed and posted for trading on the CSE under the trading symbol "TGIF".

In 2007, the Company's principal business activities changed from acquiring and developing oil and gas properties in central United States and Canada to acquiring and developing mining properties in Canada. In 2015, the Company's principal business changed to the development and commercialization of an automated triage diagnostic imaging tool to be developed for the triage of stroke patients. In June 2017, pursuant to the BC Acquisition and the Nevada Acquisition, the

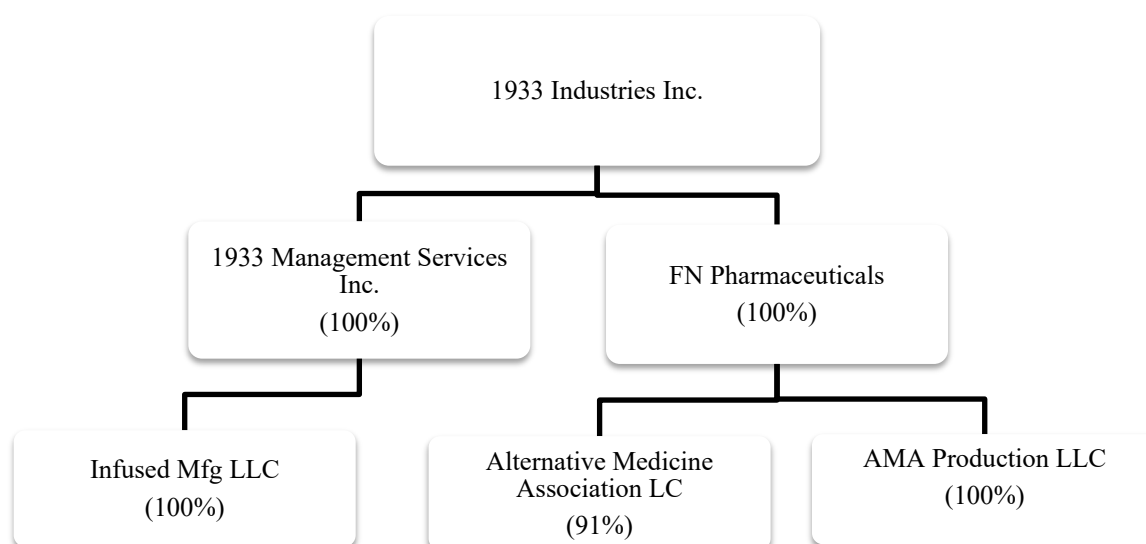
Company's principal business changed to the cultivation and production of Medical Marijuana, and production, packaging and marketing of CBD-Infused Products.

The head and principal office of the Company is located at Suite 300 – 1055 W. Hastings Street, Vancouver, British Columbia, V6E 2E9 and its registered office is located at Suite 2800, 777 Hornby Street, Vancouver, BC, V6Z 1S4.

### **Intercorporate Relationships**

The diagram below represents the corporate subsidiaries of the Company. 1933 Industries' material subsidiaries are incorporated and/or organized as follows: (i) 1933 Management Services Inc. and FN Pharmaceuticals are incorporated in the United States under Chapter 78 of the Nevada Revised Statutes, (ii), Infused Mfg LLC, Alternative Medicine Association LC and AMA Production LLC are organized in the United States under Chapter 76 of the Nevada Revised Statutes.

Unless otherwise indicated in the diagram below, each of the subsidiaries are wholly owned by 1933 Industries Inc.



## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **General Summary**

The Company is a, licensed producer in the State of Nevada, focusing on the cultivation and manufacturing of cannabis consumer branded goods in a wide range of product formats. Operating through two material subsidiaries, the Company holds cultivation, extraction, processing, and manufacturing assets supporting its diversified portfolio of cannabis brands. The

Company owns 91% of Alternative Medicine Association, LC (AMA), and 100% of Infused MFG LLC.

### ***Alternative Medicine Association***

AMA is a licensed medical and adult-use cannabis cultivation and extraction subsidiary that produces its own branded line of unique cannabis-based products. With cultivation and extraction facilities located in Las Vegas, Nevada, AMA seeks to offer medical patients and recreational users alike a consistent and exceptional cannabis experience.

### ***Infused MFG (Canna Hemp™)***

With an extensive product line that includes topicals, creams, gummies, vapes, tinctures, capsules, dabs, and pre and post workout recovery sports products, Infused's proprietary Canna Hemp™ brand utilizes the power of hemp and CBD to bring natural wellness. The Company's flagship products, the Canna Hemp™ Relief Cream and Canna Hemp X™ Recovery Cream are recognized as best topicals in the market. Canna Hemp X™ is a CBD sports recovery cream for athletes, bridging the gap between recovery and top performance. All products are triple and third-party tested for safety with test results embedded via QR codes for traceability.

## **Three-Year History**

### ***Developments During Financial Year End 2019***

On August 31, 2018, the Company filed and obtained a receipt for a short form prospectus offering filed with the British Columbia, Alberta, Saskatchewan and Ontario Securities Commission in connection with a convertible debenture units offering.

On September 14, 2018, the Company closed a short form prospectus offering of convertible debenture units for gross proceeds of \$17,250,000. The Offering was led by Canaccord as lead agent and sole bookrunner, together with Beacon Securities Limited. Pursuant to the Offering, the Company issued an aggregate of 17,250 Debenture Units at a price per Debenture Unit of \$1,000. Each Debenture Unit consisted of: (i) one 10.0% unsecured convertible debenture of the Company in the principal amount of \$1,000 (each, a "Debenture") convertible into common shares at a conversion price of \$0.45 per common share at the option of the holder, with interest payable semi-annually in arrears on June 30 and December 31 of each year and maturing on September 14, 2021; and (ii) 2,222 common share purchase warrants expiring September 14, 2021. The Debentures will be repaid in cash at maturity. Each Warrant will entitle the holder thereof to purchase one Common Share (each, a "Warrant Share") at an exercise price of \$0.65 per Warrant Share until September 14, 2021, subject to adjustment in certain events. For further information in connection with this offering, please refer to the Company's prospectus dated August 30, 2018, and filed on SEDAR.

On September 17, 2018, the Company appointed Christopher Rebentisch to its Board of Directors.

On September 26, 2018, the Company continued out of the province of Alberta and into the province of British Columbia and concurrently changed its name to 1933 Industries Inc.

On October 5, 2018, the Company granted 8,925,000 incentive stock options to its directors, officers, consultants and employees pursuant to its stock option plan. The options are exercisable for a period of three years at a price of \$0.55 per share and will vest over a two year period.

On October 8, 2018, the Company's subsidiary, Infused, commenced sales of its products in the State of Colorado in conjunction with its licensing agreement with Denver Dab.

On December 3, 2018, the Company appointed Josh Taylor to the Company's business development division.

On December 4, 2018, the Company appointed Ryan Maarschalk as Chief Financial Officer. Mr. Maarschalk subsequently resigned on May 29, 2019.

In December 2018, the Company met eligibility requirements for higher financial and corporate governance standards and was accepted for trading on the OTCQX Best Markets tier.

In January 2019, the Company issued a total of 238,600 common shares to its holders of its debenture issued in August 16, 2017. The shares were issued in payment of accrued interest to all holders of record on December 31, 2018. Additionally, the Company made cash payments totaling \$425,378 to holders of its debentures issued on September 14, 2018.

In January 2019, the Company hired Tim Spencer as Director of Cultivation with the Company's subsidiary, AMA. Mr. Spencer left the Company in December 2019

In February 2019, the Company engaged CB1 Capital Advisors as strategic business advisors for a one-year term.

In February 2019, the Company engaged Sarah Moras, professional athlete and mix martial arts fighter as a Canna Hemp™ sponsored athlete for a six-month engagement, promoting the Company's Action Sports Division and representing the Canna HempX™ brand.

On March 5, 2019, the Company provided notice to certain warrant holders that it would be accelerating the expiry of certain private placement common share purchase warrants from their respective expiry dates to April 4, 2019, and that any warrants not tendered for exercise on or before 5:00 pm PST on April 4, 2019, would expire and become null and void.

On March 15, 2019, the Company completed a \$4.5 million non-brokered private placement through the issuance of 10,000,000 units at a price of \$0.45 per unit. Each unit was comprised of one common share and one common share purchase warrant of the Company, with each warrant entitling the holder to purchase one share at a price of \$0.50 per Share for a period of two years, subject to certain acceleration provisions. The private placement was fully subscribed by a single individual.

On April 1, 2019, the Company reported that it closed the acquisition of the remaining nine percent (9%) of the issued and outstanding Infused Membership Interests pursuant to a MIPSA between the beneficial record holder of the nine percent (9%) of the issued and outstanding membership interests of Infused and the Company.



Under the terms of the agreement referred to in the paragraph above, the purchase price provided for a payment of CDN \$1,248,000, payable through the issuance of a promissory note with a principal value of US\$940,000 and a maturity date of December 1, 2019; and the issuance of 7,000,000 common shares in the capital of the Company, based on a deemed share price of CDN \$0.45. The note provided for an interest at a rate of 6.0% per annum and interest only payments shall be due on the first of each month until repaid. The maturity date of the note would have been accelerated in the event among other things the completion of a capital raise by the Company generating aggregate gross proceeds exceeding \$10 million. The note was secured with 7% of issued and outstanding membership interest of Infused. The purchase price also included the issuance by the Company of 1,000,000 non-transferable share purchase warrants with a strike price of \$0.53, based on the market price on the day immediately preceding March 29, 2019. The warrants have an expiration date of two (2) years from the March 29, 2019. The note was repaid in full upon the sale of the cultivation building on May 15, 2019.

On April 3, 2019, the Company, through its subsidiary Infused, entered into a licensing agreement with House of Hawk, LLC to launch several co-branded CBD wellness products. The licensing agreement is for a two-year term in North America and was not renewed.

In April 2019, the Company's subsidiary AMA, entered into a licensing agreement with OG DNA Genetics Inc., a globally-recognized leading cannabis brand, for the exclusive license to cultivate, manufacture, sell and distribute co-branded cannabis products for a two-year term in the State of Nevada. The agreement was subsequently terminated as of September 18, 2020.

Also in April 2019, the Company entered into an exclusive licensing agreement with Gotti's Gold Ex LLC through its subsidiary AMA, to launch Gotti's Gold in Nevada, a line of branded cannabis products in partnership with hip-hop artist Kurupt. This agreement expired on November 9, 2019, and was not renewed.

On April 20, 2019, the Company launched the Canna Fused<sup>TM</sup> line of THC/CBD wellness products for the Nevada market featuring vape pens, cartridges, lotions and lip balms.

On May 3, 2019, Brayden Sutton was appointed Chairman of the Board in addition to his previous positions as Chief Executive Officer and President. In addition, the Company approved the issuance of 200,000 bonus shares to Mr. Sutton at a deemed price of \$0.50 per share in lieu of a cash bonus payment for 2018.

On May 3, 2019, the Company also reported that it entered into a consulting agreement with Westmount Capital ("Westmount") to provide European investor relations services, commencing on May 1, 2019, for a 6-month term ending on October 31, 2019. The agreement was renewed for another 6-month period with an amended payment schedule. Westmount was granted 100,000 incentive stock options, exercisable in whole or in part on or before May 2, 2024 at an exercise price of \$0.55 per share, subject to certain vesting requirements.

On May 15, 2019, the Company reported that its subsidiary, AMA, completed a sale and lease back for its newly constructed cannabis cultivation facility in Las Vegas, Nevada. The purchase price for the transaction was USD\$10,450,000 which transaction included a lease-back agreement for a period of 10 years, with the option to extend the lease term for two additional periods of 5 years each.

On May 29, 2019, the Company appointed Christopher Rebentisch as Chief Executive Officer.

On May 30, 2019, the Company appointed Terry Taouss to its Board of Directors and Andrew Richards resigned as a Director.

On June 5, 2019, Brayden Sutton resigned as the President of the Company and Ester Vigil was appointed in his stead.

On June 17, 2019, Stephen Radusch was appointed Chief Financial Officer of the Company.

On July 3, 2019, the Company reported that it had received a permanent Occupancy Permit for its cultivation facility.

On July 19, 2019, the Company reported that it received both Clark County and Nevada Department of Taxation final approvals for the transfer of its existing cultivation licenses to its new cultivation facility.

### ***Developments During Financial Year End 2020***

On August 2, 2019, the Company reported that it had retained the services of Renmark Financial Communications Inc. commencing on August 1, 2019, to augment its investor relations activities for a six-month term and monthly thereafter.

The Company also reported on August 2, 2019, that Joseph Bleackley stepped down as Chief Operating Officer.

On August 15, 2019, the Company reported that it had signed a Management Services Agreement to provide operational and accounting services, as well as general management and oversight to Green Spectrum Trading Inc., a medicinal and recreational cannabis business licensee in the State of California.

On August 16, 2019, the Company granted 6,800,000 incentive stock options to its directors, officers, consultants and employees pursuant to the Company's stock option plan. The options are exercisable for a period of three years at a price of \$0.35 per share and will vest over a three-year period.

On August 20, 2019, the Company announced that it commenced the transfer of cannabis plants to its new cultivation facility in Las Vegas following an extensive period of systems-wide testing.

On September 10, 2019, the Company announced the execution of a licensing agreement for the launch of Blonde™, a high-end California brand making its debut in Nevada. Under the terms of the one-year agreement, the Company's subsidiary, AMA, received the exclusive rights to cultivate flower, manufacture pre-rolls, live resin vape pens and cartridges under the Blonde™ brand for distribution to licensed dispensaries throughout Nevada. The agreement was not renewed.

On September 18, 2019, AMA announced an exclusive Licensing Agreement with HH Global Inc., for the intellectual property rights to The Original Jack Herer® brand of cannabis products

in Nevada, for a one-year term. Under the terms of the Agreement, AMA will license, market and distribute The Original Jack Herer® flower, pre-rolls, vape cartridges and concentrates for the growing Nevada market. The agreement expired in 2020 and was not renewed.

On September 19, 2019, the Company announced a licensing agreement with California-based PLUGplay, a manufacturer of cannabis vaporizer cartridges with proprietary magnetic hardware, for a 12-month term. Under the terms of the Agreement, the Company's subsidiary, AMA, will manufacture distillate and vape pens under the PLUGplay brand, for distribution to dispensaries across Nevada. The agreement expired and was not renewed in September, 2020.

On September 19, 2019, the Company also announced that the Board of Directors approved bonus shares to Mr. Brayden Sutton, Chairman of the Board, and to Mr. Christopher Rebentisch, Chief Executive Officer, pursuant to their respective employment contracts. Mr. Sutton received 291,901 shares and Mr. Rebentisch received 175,913 shares, all of which were issued at a deemed price of \$0.365 per share. The Company also, pursuant to the amended terms of two consulting agreements, issued 650,000 share purchase warrants in lieu of cash consideration. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.37 exercisable in whole or in part until June 13, 2022. The bonus shares and warrant will bear a four-month regulatory hold period from the date of issuance.

On September 23, 2019, the Company announced that it had commenced sales to specialty retailer Zumiez, featuring Canna Hemp X™, the Company's action sports topical recovery cream. With 658 stores in North America, Zumiez has a well-defined brand position with a target demographic that is synergistic with the Canna Hemp X™ line.

On September 30, 2019, the Company announced that it commenced the flowering cycle of its cannabis plants in its new indoor cultivation facility located in Las Vegas, Nevada. Following the transfer of cannabis plants to the new facility in late August, the plants completed a vegetative stage for four weeks. The first harvest from the initial three rooms was expected in early December, with continued harvests thereafter every two weeks, all while new grow rooms are added in the facility for a total of 15 bloom rooms. The initial 26 strain varieties currently at the facility will be augmented with an additional 12 Cannabis Cup award-winning strains to sustain the Company's flower and concentrate production of branded AMA products and third party brands.

On November 4, 2019, the Company launched its newest product, the Birdhouse CBD Balm by Canna Hemp X™. The CBD Balm was developed in collaboration with Birdhouse Skateboards™, targeting the action sports market and will be available for sale in dispensaries, wellness stores, skate shops and specialty retailers, including Zumiez in the United States.

On December 10, 2019, the Company announced the execution of a two-year licensing agreement between the Company's subsidiary, Alternative Medicine Association LC ("AMA") and Los Angeles based, The Pantry Company Inc., for the production of edible products in Nevada, adding a new vertical to the Company's portfolio of leading cannabis brands.

On December 12, 2019, the Company announced that it entered into a 2nd licensing agreement with OG DNA Genetics granting 1933 Industries license to the DNA brand for the production and sale of hemp-derived CBD products – signaling DNA's first entry into the CBD market. The agreement was terminated in September, 2020.

On January 7, 2020, the Company announced that it has readied its California operations to begin manufacturing its line of proprietary CBD wellness products with full-spectrum CBD for the ever-growing California dispensary market, as well as debuting its AMA-branded THC products for the first time in that state.

On January 9, 2020, the Company announced a licensing agreement between the Company's subsidiary, AMA and Capna Intellectual, Inc., developer of The Bloom Brand ("Bloom™"). The one-year agreement was executed in December and received state approval in January, and awards AMA the exclusive license to manufacture a wide range of Bloom™ products for the Nevada market. The agreement has since expired and was not renewed.

On January 22, 2020, the Company provided a progress update regarding its hemp processing facility.

On January 24, 2020, the Company announced the appointment of seasoned senior executives in the beauty and CPG industries to its Board of Directors. The Company welcomed Ms. Lisa Capparelli and Mr. Mark Baynes to the board and announced that Mr. Brayden Sutton and Mr. Cameron Watt have resigned as directors. Mr. Terry Taouss has been appointed Chairman of the Board. The Company also announced that Ms. Alexia Helgason has been appointed VP of Investor Relations and that Mr. Jordan Stroum has been named Director of Operations for the Company.

On January 27, 2020, the Company announced that it has retained the services of PI Financial Corp. and Independent Trading Group for market making services in accordance with the Canadian Securities Exchange policies.

On February 14, 2020, the Company announced that, further to its news release dated January 7th, 2020, the first harvest of cannabis plants from its California operation is currently under way and reports that it has commenced distribution of California-compliant full spectrum Canna Hemp™ products to dispensaries in the state.

On February 26, 2020, the Company also announced the incentive grant of 1,000,000 stock options to its directors, officers, consultants and employees pursuant to the Company's stock option plan. The options are exercisable for a period of three years at a price of \$0.35 per share and will vest over a three-year period.

On March 18, 2020, the Company provided an update regarding its response to the COVID-19 pandemic. The State of Nevada requires the closing of all nonessential businesses for the next 30 days. The closing mandate does not affect cannabis operators or licensed dispensaries. As such, we will continue our regular operations, with our cultivation and manufacturing facilities in Nevada remaining open, to meet the increased demand for our premium cannabis concentrates. Our second harvest in Nevada is still on schedule for the end of March. However, we will continue to monitor developments related to COVID-19 and assess our operations as the situation evolves. AMA, our cultivation arm, already follows stringent cleanliness, sanitation and hygiene protocols and in addition, the Company will adhere to additional safety measures.

On March 30, 2020, the Company announced that it has begun its second harvest of cannabis plants from its cultivation facility located in Las Vegas, marking the beginning of continuous harvests in Nevada.

On June 3, 2020, the Company announced that it would convene an extraordinary meeting of holders of 10% Senior Unsecured Convertible Debentures Due September 14, 2021 (“Debentureholders”) to be held on June 29, 2020, to put forward amendments to the Debentureholders for approval.

On June 15, 2020, the Company announced that Christopher Rebentisch was no longer CEO or director of the Company and Ester Vigil was no longer President. Concurrently, the Company announced the appointment of Paul Rosen as CEO and Eugene Ruiz as President.

On June 18, 2020, the Company announced the launch of a new line of wellness products made with organic hemp seed oil. The new Canna Hemp™ suite of wellness products includes creams, balms, tinctures, lotions, capsules and more.

On June 29, 2020, the Company announced that all amendments put forth at the Company’s extraordinary meeting of Debentureholders were approved and that the Company anticipated the effective date of the approved Debenture Amendments would take place on or about June 30, 2020, being the date the Company anticipated entering into the supplemental indenture with Odyssey Trust Company.

On July 7, 2020, the Company announced the appointment of Patricia Kaelin as CFO, replacing Stephen Radosch.

On July 22, 2020, the Company announced the addition of premium smokable flower and pre-roll joints to its diverse portfolio of consumer-driven brands.

### ***Developments Subsequent to the Financial Year End 2021***

On August 6, 2020, the Company’s subsidiary, AMA, signed a licensing agreement with California-based Five Star Group, LLC, (“Five Star Extracts” or “Five Star”) for the cultivation, manufacture and sale of Five Star Extracts branded products in Nevada for a one-year term. The agreement expired and was not renewed.

On August 7, 2020, the Company announced the grant of 9,200,000 incentive stock options to its directors, officers, consultants and/or employees pursuant to the Company’s stock option plan. The options are exercisable for a period of five years at a price of \$0.075 per share and will be subject to certain vesting restrictions. The Company also announced that recently, approx. 6,600,000 options expired unexercised in accordance with the terms of its stock option plan.

On August 12, 2020, the Company announced the introduction of a new line of extra strength products to its extensive wellness portfolio. The Canna Hemp™ Plus line was developed for consumers who want to experience the added benefits of increased CBD at competitive prices from a reliable and trusted brand.

On September 1, 2020, the Company appointed Mr. Paul Rosen to its Board of Directors.

On September 4, 2020, the Company closed a private placement of 10,510,040 Units at a price of \$0.075 per Unit for gross proceeds of \$788,253. Each Unit consisted of one share and one-half share purchase warrant, with each whole warrant being exercisable at a price of \$0.125 until September 3, 2022 and is subject to an accelerated expiry if the closing price of the Company's common shares exceeds C\$0.25 per share for a period of 10 consecutive trading days. A total of \$6,037.50 was paid and 40,250 warrants were issued as a finder's fee in connection with the closing. All securities issued in connection with the private placement are subject to a regulatory hold period expiring on January 5, 2021. Proceeds from the private placement will be used for ongoing business development and general working capital.

The Company also announced that it had terminated the Management Agreement with Green Spectrum Group LLC., as the deal structure was deemed inadequate to generate profits and cash flow and closed down its California operations.

On September 11, 2020, the Company announced that it set up distribution of its Canna Hemp™ line of wellness products in conjunction with CBD Plus, the largest and most trusted supplier of CBD products across the United States.

On October 20, 2020, the Company announced that AMA had entered into a Supply and Licensing Agreement for the manufacturing and distribution of Orchid Essential products for the Nevada cannabis market. Pursuant to the terms of the three-year Agreement, the Company will purchase Orchid's PurTec hardware and packaging component products and proprietary terpene blends required for the production of Orchid Essentials products. AMA will act as the exclusive supplier of the Orchid Essentials Brand Products and future lines, and will also purchase the same hardware components, packaging and terpenes for its own branded products under the same pricing terms.

On Nov 5, 2020, the Company announced that it signed a Membership Interest Purchase Definitive Agreement among the Company, its subsidiary FN Pharmaceuticals, E. Mark Zobrist and Linmark Enterprises Corp., to purchase the remaining 9% interest in AMA Production LLC thereby which would result in the Company's 100% ownership of the subsidiary which contains the property located at 5035 Geist Ave., Las Vegas, Nevada. On November, 2020, the transaction closed, and subject to the terms of the Agreement, in consideration of the acquisition of the remaining 9%, the Company issued, in the aggregate, 3,700,000 non-transferable share purchase warrants, exercisable at a price of \$0.075 per share expiring on June 13, 2024 and subject to a four month and one day hold period. The operating agreement for AMA was amended to concede complete managerial control of AMA to the Company.

On November 9, 2020, the Company issued 12,050,000 options to its directors and officers. The options are exercisable at a price of \$0.10 expiring on November 8, 2025.

On November 13, 2020, the Company held its annual general meeting at which meeting, it re-elected its directors (Paul Rosen, Terry Taouss, Richard Skeith, Brian Farrell, Mark Baynes, Lisa Caparelli, and re-appointed its auditor, Davidson & Company.

On December 30, 2020, the Company announced the launch of a new e-commerce website for its Canna Hemp™ brand of hemp and CBD wellness products: [cannahemp.com](http://cannahemp.com). With the goal of enhancing the user-experience, the new website features more intuitive navigation and improved education to assist consumers select wellness products that suit their individual lifestyles and

needs. Featuring a large selection of high-quality hemp and CBD products with specific outcomes and delivery formats, Canna Hemp™ aims to bring natural wellness to consumers across the United States.

On January 29, 2021, Mr. Terry Taouss resigned as Chairman of the Board and a Director of the Company.

On January 31, 2021, Eugene Ruiz ceased to be the President of the Company.

On February 3, 2021, the Company announced that Company-wide total sales and open orders reached CAD\$1.4 million in January 2021. The Company reports that its cultivation subsidiary, Alternative Medicine Association (AMA), recorded its strongest monthly sales to date since launching its AMA branded cannabis flower and pre-rolls in late August 2020, representing a 113% increase year over year.

On March 4, 2021, the Company closed the bought deal private placement of units (the “Units”) for aggregate gross proceeds of C\$4,955,052 (the “Offering”), which included the partial exercise of the Underwriter’s Option (defined below). The Offering was led by Canaccord Genuity Corp. (“Canaccord” or the “Underwriter”) as sole underwriter and sole bookrunner. Pursuant to the Offering, the Company sold a total of 31,820,000 Units at a price of C\$0.11 per Unit (the “Issue Price”). Each Unit was comprised of one common share of the Company (a “Common Share”) and one Common Share purchase warrant (a “Warrant”). Each Warrant will be exercisable to acquire one Common Share at an exercise price of C\$0.16 per Common Share until March 4, 2023, subject to a Warrant acceleration right exercisable by the Company if, at any time following the date that is four months and one day from the closing date of the Offering, the daily volume weighted average trading price of the Common Shares on the Canadian Securities Exchange (the “CSE”) is greater than C\$0.30 for the preceding 10 consecutive trading days and shall be exercised by notice in writing to the holders of Warrants and the Underwriter. Pursuant to Canadian securities laws, all securities in respect of the Offering will be subject to a four month and one day hold period expiring on July 5, 2021. The Underwriter partially exercised its option (the “Underwriter’s Option”) to purchase an additional Units, whereby it purchased 13,225,929 Units at the Issue Price and raised additional gross proceeds of C\$1,454,852. In connection with the Offering, Canaccord received a cash commission equal to 7.0% of the gross proceeds of the Offering (excluding proceeds derived from the sale of Units to any Direct Settlers (as defined below) as well as an advisory fee in respect of proceeds raised directly by the Company from certain subscribers (the “**Direct Settlers**”) as agreed to between the Company and Canaccord. Additionally Canaccord was issued that number of brokers warrants (“**Broker Warrants**”) as is equal to 7.0% of the number of Units sold under the Offering (excluding Units sold to Direct Settlers) as well as advisory warrants (“**Advisory Warrants**”) together with the Broker Warrants, the “**Compensation Warrants**”) relating to the Units issued to Direct Settlers. Each Compensation Warrant entitles the holder to purchase one additional Unit of the Company (each a “**Compensation Unit**”) at a price of \$0.11 per Compensation Unit until March 4, 2023. The Compensation Units have the same terms as the Units sold pursuant to the Offering. The proceeds of the Offering will be used for general working capital and future market opportunities.

On March 24, 2021, the Company announced an extraordinary meeting of holders of 10% Senior Unsecured Convertible Debentures Due September 14, 2021 (“Debentureholders”) to consider approving an extension to the maturity date for the Debentures from September 14, 2021 to

September 14, 2022 and on April 22, the Company announced that the holders of 10% Senior Unsecured Convertible Debentures Due September 14, 2021 voted in favour to approve an amendment to extend the maturity date for the Debentures to September 14, 2022. Subsequently, on May 5, 2021, the Company announced that it had determined not to proceed with the amendment and accordingly, the indenture remained unchanged.

On June 3, 2021, the Company announced that it had received approval for an Adult-Use Distribution License for the state of Nevada. The license allows the Company to transport its cannabis products directly to its wholesale accounts, without the need for an intermediary. It also enables the Company to distribute cannabis products for other licensees, while bolstering its supply chain and reducing the costs associated with third-party distribution.

On June 3, 2021, the Company also announced the recent launch of its ultra-craft brand Level X, an exclusive collection of exotic strains, selected specifically for their distinctive terpene profiles, high THC levels, and flavonoids. Over a year in development, Level X flower is expertly cured, small batch grown and features buds that are meticulously selected and hand-trimmed. Cultivated by a best-in-class team in the Company's state-of-the art indoor facility, Level X is the result of months of testing and evaluating distinctive cultivars in order to provide a unique product not currently available. The Level X brand will offer preferred limited-run strain drops on a rotational basis, with product available at selected dispensaries. Exclusive to Las Vegas, Level X will appeal to true cannabis connoisseurs.

On June 29, 2021, the Company announced that AMA commenced the expansion of a new grow zone at its indoor cultivation facility in Las Vegas, Nevada. Phase I of its cultivation facility expansion has been completed with the addition of a new grow zone, and the installation of 45 new grow lights. The new zone is already in use and contains 270 plants in an area that is 1,938 square feet in size with 1,035 square feet of table area, which can hold up to 405 plants. Phase II encompasses an additional new grow zone, the installation of 120 additional lights (or their LED equivalent), and a customized climate control system separate from the rest of the facility, to create a stand-alone, specialized growing environment for the Company's top tier cannabis strains. The goal of the specialized zone is to achieve an optimal balance of light, nutrients, and air quality in order to produce better crop yields and stronger plants. Phase II measures 3,600 square feet and 2,400 of table square footage which can hold up to 1,080 plants. The expansion aims to maximize the efficiency of the facility, increase total output, and cultivate higher quality cannabis for the competitive Las Vegas market.

### **Significant Acquisitions**

There have been no significant acquisitions as that term is defined in Part 8 of National Instrument 51-102.

## **NARRATIVE DESCRIPTION OF THE BUSINESS**

### **Business Description**

Pursuant to the BC Acquisition and the Nevada Acquisition, the Company acquired the business of AMA and Infused. AMA and Infused currently operate in the Medical Cannabis and Recreational Cannabis sector in the State of Nevada, while Infused had previously granted



licenses for the manufacturing, production and sale of products within its Canna Hemp™ line to partners in the States of California and Colorado. AMA, a 91% owned indirect subsidiary of the Company is licensed in the State of Nevada as a (i) cultivation facility; and (ii) a production facility for edible, or cannabis-infused products. Infused, a wholly-owned indirect subsidiary of the Company, is focused on the development of outcome-specific CBD-infused products and brands for retail sale and use in jurisdictions where permitted.

The Company's objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the cannabis industry in the United States. The Company's vision is to become a leading provider of premium, innovative and effective cannabis products for all lifestyles, leveraging its best-in-class infrastructure, intellectual property and expertise in harnessing the power of the cannabis plant.

The Company has positioned itself to take advantage of growth in the cannabis industry in the U.S. with its multi-faceted strategy and entrepreneurial management team. The Company is aware that the legal cannabis industry is in its infancy and is rapidly evolving which presents risks in addition to opportunities. There is, however, no certainty that the Company will not be adversely affected by changes in government regulation and other factors in the future. The Company aims to mitigate these risks by closely monitoring regulatory changes with the assistance of legal counsel and by maintaining the highest standards possible with respect to legal, accounting and security controls, as well as proactively taking a leadership role in working with regulatory bodies and other stakeholders to build the necessary infrastructure typically available to other types of businesses.

AMA was the first licensed cultivation facility in Clark County in the State of Nevada. It operates as a wholesale grower and producer that sells to licensed medical and recreational retail dispensaries or retail stores who hold state licenses for retail sales to medical patient cardholders or adults over the age of 21. Its products are currently sold in the majority of dispensaries statewide, with the focus being in Las Vegas where, on average, more than one million tourists visit every week. Additionally, AMA is able to manufacture and sell third-party brands that are well known outside the state but whose owners do not hold Nevada cannabis production licenses. Through licensing agreements, AMA has represented a broad array of popular brands that act as a draw to visitors from other states. Licensed partners have included: Gotti's Gold, Blonde™ Cannabis, Bloom™, and Viva La Buds.

Infused develops, designs and produces CBD-Infused products and brands for retail sale and use. CBD, as utilized by Infused, is extracted from industrial hemp. Infused manufactures a number of CBD-only infused products, including: tinctures, lotions, creams, and capsules with expected outcomes. Infused manufactures and distributes its products under the brand names: Canna Hemp™ and Canna Hemp X™. Licensed partners included: Birdhouse Skateboards™, and Grizzly Griptape.

The Company's expansion model may differ depending on the residency requirements of the applicable jurisdiction if it chooses to participate in markets in other states directly as a licensed operator. All U.S. States that have legalized cannabis for medical or recreational use require licensed operators to hold a License issued by the applicable state authorities. In some states, for a licensed operator to be eligible to be granted a license, the owners of the licensed operator must be residents of such U.S. State. As such, listed companies or other widely held enterprises may

be ineligible to obtain a license in those states where a licensed operator must be a U.S. State resident.

In the U.S. States without residency requirements, the Company may choose to apply for a License or acquire entities with a license and produce products itself, or work with other licensed operators using the same model as it has developed for U.S. States with a residency requirement. The licensed operators include growers of cannabis, cannabis product manufacturers and retail dispensaries. Ancillary service providers may include medical and educational centres and cannabis paraphernalia shops.

The Company will not operate in jurisdictions which have not legalized cannabis, and does not intend to operate in jurisdictions which have legalized cannabis but have not developed and imposed a licensing regime for licensed operators.

## Licenses

The following table is a list of the current licenses granted to the Company’s subsidiaries and the facilities operated by them.

Entity	Address Attached to License	License Number	Summary	Expiration/ Renewal Date
Alternative Medicine Association LC	5045 Geist Ave, Las Vegas, NV 89115	33652679278436588975	C087, Medical Cultivation	6/30/2022
Alternative Medicine Association LC	5045 Geist Ave, Las Vegas, NV 89115	85529550360873527457	RC087, Recreational Cultivation	06/30/2022
Alternative Medicine Association LC	3375 Pinks Place, Las Vegas, NV 89102	69319435542613350317	P096, Medical Production	06/30/2022
Alternative Medicine Association LC	3375 Pinks Place, Las Vegas, NV 89102	74226113309081700669	RP096, Recreational Production	06/30/2022
Alternative Medicine Association LC	3375 Pinks Place, Las Vegas, NV 89102	99035327095322531382	T013, Adult-Use Distribution	4/30/2022

## Use Cases of Cannabis

Cannabis can be vaporized, smoked or ingested to alleviate pain and other ailments. Since 2015, AMA has been cultivating and selling cannabis within the price range of \$2000 to \$3500 per pound, depending on the strain. Typically, growth time and strain yield will determine how a strain is priced. Very particular strains may be priced higher than the given range, but this would be the exception.

The Company believes that carrying a popular variety of strains of Medical and Recreational Cannabis is essential to long-term success. Each strain of cannabis is unique. Some of the factors that impact whether a particular strain may be right for a patient or customer include:

- **The levels of THC and CBD:** THC and CBD are the two major medicinal components in cannabis, and must be clearly and accurately labelled. Generally

speaking, THC provides psychoactive effects, while CBD provides non-psychoactive medicinal effects.

- **Whether the plant is a Sativa, Indica or Hybrid breed:** Sativa and Indica are the two main species of cannabis plants, though there are also Sativa-Indica Hybrids. Generally speaking, Indica is perceived to provide a heavier, evening type of high. Sativa, on the other hand, is generally viewed as providing a daytime, energetic high.

## **Medical and Recreational Segments**

### ***Operations, Cultivation, Production and Distribution***

As of the date of this AIF, AMA's business involves the growing of cannabis indoors through hydroponic processes for personal medicinal and recreational use. AMA began commercial production in April 2015 when it was the first medical cannabis establishment approved for cultivation in Southern Nevada. Its first crops were harvested, dried, packaged and sold in October 2015 and it has produced cannabis on a commercial scale in Nevada since that time.

AMA's cultivation of up to 500 pounds of cannabis per month, including both cannabis flower and trim, is in full compliance with all state and local regulatory authorities. In 2019, AMA completed the construction of its purpose-built, state-of-the-art 67,750 sq. ft. cultivation facility and has since focused on improving the yield and potency of its strains to arrive at a desired top-tier flower quality, which was recently introduced to the market.

The Company's competitive advantage is its focus on cultivating craft cannabis at scale and high-yielding strains for its smokable flower, pre-rolls and extraction products, which command a premium in the market. Approximately 60 to 65% of this biomass will be sold as flower directly to independent Nevada dispensaries with the balance going to the Company's production facility for the production of concentrates. The Company also purchases additional biomass from outside sources for its production facility.

The Company's cultivation, production, distribution and marketing business is currently focused on three main segments: the Medical Segment, the Recreational Segment and the CBD-Infused Products Segment. The Company sells THC products only to licensed retail dispensaries in Nevada and sells its hemp-based, CBD infused products through retail dispensaries and other retail outlets and online through its e-Commerce platform across the United States.

The Company's management also has identified cannabis growers, cannabis concentrate extractors and suppliers in North America, which it can call on to fill the need for various expertise as such needs arise.

The facility is segregated into 5 different zones with a total of 19 rooms – 16 Bloom Rooms, 1 Mother Room, 1 Veg Room, 1 Clone Room. The purpose-built 67,750 sq. ft. cultivation facility was developed as a two-story building on 1.39 acres and zoned M-1 (Light Manufacturing) by the Clark County Zoning Department. The structure includes a system of small vegetation/cultivation rooms for better crop management, packaging areas, supporting offices, vault, climate-controlled rooms to cater to each phase of plant production, and other work areas.

In addition, a benching system maximizes growing space and an advanced data tracking system allows for ‘steering’ the crop scientifically, reducing crop time while increasing yield and quality.

All key growing elements are monitored and computer controlled to ensure consistent production. The details of the process are highly commercially sensitive and valuable. The facility has been built to be fully compliant with all relevant building and safety requirements. All electrical, plumbing, security, and related plant and equipment are built to full commercial standards.

## ***Market***

### *Nevada*

Nevada is typically host to nearly 42 million visitors each year. The market for cannabis is growing and both the tourism and local markets have continuously grown and remain robust. Nevada presents significant opportunities for operators due to the state’s rank as a top tourism destination, high barriers to entry with a favorable licensing structure and generous patient reciprocity laws. According to the Compliance Cannabis Board of Nevada (CCB), there are 758 medical and recreational operational licenses / certificates statewide. According to BDSA data, Nevada dispensaries generated \$83.9 million in sales, growing 34 percent in August 2020 compared to the previous year. According to the CCB, during Fiscal Year 21 (July 1, 2020 – June 30, 2021), licensed adult-use cannabis retail stores and medical dispensaries generated \$1,003,467,655 in taxable sales, an increase of more than \$318 million from the previous year. The majority of sales were conducted in Clark County and unincorporated cities in Southern Nevada.

The Company believes that market growth will increase as cannabis’ expansive therapeutic values and wellness uses are further explored and proven. In Nevada, the CCB is in the process of drafting rules governing the licensure of cannabis consumption lounges for consumers in a social setting.

## ***Market Plans and Strategies***

- The Company operates as a cannabis cultivator growing product under the AMA Brand for direct sale to dispensaries in Nevada. The Company will primarily sell its flower production under its own brand. The Company is open to allocating a small percentage of this flower production to one to two potential strategic licensed brands, where such association will provide added value to the overall expansion and awareness of the AMA Brand.
- The Company is also a producer of various cannabis concentrates through a Nevada production license. The Company produces concentrates for both its own brand and other licensed brands.
- The Company produces a premium CBD and Hemp line up of lotions, balms, tinctures, and other wellness products under its Canna Hemp™ brands for sale throughout the United States.

The Company's business model is based on servicing the existing Medical Cannabis patient base in Nevada and the Recreational Cannabis consumers, including those who visit Las Vegas each

year, by establishing an aggressive presence and image for its unique branded flower, pre-rolls and extraction products. The Company has built its own distribution to dispensaries in the state and plans to build market share by increasing its flower and concentrate production and adding new brands to its portfolio of products. As its branded image and reputation is established, the Company may license or acquire other cannabis businesses in other U.S. States that have legalized Medical Cannabis and/or Recreational Cannabis to sell its specific brands that are focused on high quality cannabis specific products with recurring sales to a loyal and growing clientele.

Like other licensed operators, the Company has developed a comprehensive media relations program to create visibility and awareness in the market for commercially grown cannabis. The Company believes that its success in this market has been achieved by offering a broad range of quality products offered at competitive prices and delivered through outstanding client service under a well identified brand. Each strain of cannabis is unique, and the Company believes that carrying a consistent base of high-quality strains and cannabis products, including CBD-Infused products and hemp-based products, is essential to its long-term success. The Company currently has over 100 different cannabis skus including flower, pre-rolls and many forms of extracts.

Additionally, the Company has worked to maximize media coverage and public relations activities and has a strong marketing program in place to reach potential customers. The Company has an e-Commerce platform, call-center, educational programs and attends industry tradeshows and events to reach wholesale buyers and end-consumers. Indirect outreach through collaboration with key stakeholders has been undertaken to reach potential clients as well.

## **CBD-Infused Products Segment**

### ***Operations, Design and Production***

In its CBD-Infused products business, the Company, through Infused, is focused on developing, designing and producing CBD-Infused products and brands for retail sale and use in jurisdictions where permitted.

Leaves, nodes and shake (or collectively "trim") are not typically utilized for consuming cannabis through smoking, but are used in production of other products such as oil extracts. Both CBD, the principal non-psychoactive constituent of the cannabis plant, and THC are extracted in the form of cannabis concentrates from the plant. The cannabis concentrate can then be refined into individual components and used to manufacture a number of cannabis-infused products which may only contain CBD, including: tinctures, vape pens and vape cartridges, lotions, pain creams, and capsules. The Company manufactures and distributes these and other products under two distinct brands: Canna Hemp™; Canna Hemp X™. Products are specifically infused with CBD for stronger health benefits without any psychoactive effects. These are marketed direct to consumers in legal channels which include its e-commerce online store, specialty stores, vape storefronts and retail dispensaries under the company brand name of "Canna Hemp™". A sports line of products targets the active lifestyle market with specific lines for pre- and post-workout products. The Company continues to build its brand presence and reputation and is focusing on developing brands that it believes resonate with consumers. The Company has submitted trademark applications in the United States, specific U.S. States and Canada on key brand names it intends to utilize when appropriate to do so on an ongoing basis.

## ***Market***

The Company's CBD-Infused products are sold exclusively in the United States. Depending on how the current laws are interpreted and applied, at some future date the Company may need to restrict CBD-Infused products to those U.S. States that have legalized cannabis for medical or recreational uses or require manufacturers of cannabis products to hold a license issued by the applicable state authorities. The Company's business will be affected by both state and federal regulation governing the production and sale of cannabis in general, and CBD-infused products, in particular. Cannabis research firm BDSA' forecast predicts that the CBD market will reach \$19.5 billion in 2025, pending the approval of CBD as a legal additive by the U.S. Food and Drug Administration. The projection takes into account a compound annual growth rate of nearly 37% over that period.

While a variety of factors will determine the future shape and dynamics of the CBD market in the U.S., it is clear that consumer demand is established and durable. As access to CBD continues to increase, so will demand, and as product offerings expand, consumers' preferences and behaviors will evolve, becoming increasingly personalized to their unique needs. The FDA has been slow to regulate CBD, but the market is maturing, with consumers' preferences and behaviors developing in the meantime."

## ***Market Plans***

### *U.S. States with Residency Requirements*

In U.S. States with residency requirements, the Company may work with companies or other entities that have a valid license issued by the applicable U.S. State authorities to provide an array of services as a part of its "franchise-like" model, or will work with eligible persons applying for such license. The Company has developed a business model where it may undertake a combination of the following functions with the expectation of realizing the following respective revenue streams from such activities.

<b>Activities</b>	<b>Expected Revenue Streams</b>
Acquire and develop recipes, know-how and other intellectual property for the preparation of CBD-Infused products and Cannabis Concentrates, for use by royalty producers entering into royalty agreements with the Company.	Royalty or production license fees
Develop recognizable brands for CBD-Infused products and Cannabis Concentrates for use by royalty producers entering into royalty agreements with the Company.	Royalty or production license fees
Provide consulting services with respect to extraction processes, techniques, training and know-how relating to Cannabis Concentrates.	Consulting fees, Royalty fees
Provide financial and strategic support to licensed operators in securing supply of cannabis.	Miscellaneous consulting fees

While one of the Company's core strengths is the development of CBD-Infused products and its developing expertise in cannabis concentrate extraction techniques, it will approach different jurisdictions with a tailored strategy in order to comply with the regulatory framework, while emphasizing its core competencies in the cannabis and CBD-Infused products markets. As such, the Company may focus on different parts of the industry value chain, or focus on acquiring assets in the industries not directly related to CBD-Infused products or cannabis concentrate in order to ensure such compliance (e.g., acquisition of real estate, unsecured lending and consulting).

The Company has engaged legal counsel in Nevada to conduct appropriate corporate due diligence to ensure compliance of licensed operators with whom the Company conducts business. The Company will verify that licensed operators with whom it does business have been issued the required licenses from their state and local licenses. Any royalty agreements entered into with a licensed operator will be subject to the licensed operator maintaining its licenses in good standing with the appropriate regulatory authority and comply with applicable laws.

#### States Without Residency Requirements

The Company may also consider seeking licensing to manufacture and distribute CBD-infused products and cannabis concentrates in certain U.S. States without residency requirements or with residency requirements that the Company is able to comply with. Due to U.S. federal regulations, the Company will evaluate each U.S. State in which the Company chooses to operate as a separate market and with a distinct business plan. Given market fragmentation due to the various U.S. State regulatory regimes, the Company expects that its products would be manufactured in micro-factories for distribution only in the U.S. State where the micro-factory is situated.

#### **Specialized Skills and Knowledge**

The primary specialized skill unique to the Medical Cannabis and Recreational Cannabis industry is growing cannabis. While a background in the growing of cannabis specifically may be helpful, the nature of growing cannabis does not differ substantially from the nature of growing any other crop. These skills are generally available. The Company requires client care staff as the business of the Company grows. Customer care staff is a skillset that is also generally available in the market.

Differentiation in the strains of Medical Cannabis and Recreational Cannabis is primarily achieved through cross-breeding to produce its own new strains of seeds, or through the acquisition of plants from certified medical cannabis patients in Nevada who are authorized to grow their own cannabis plants. Obtaining plants or seeds for growing cannabis must be done in accordance with the Division of Public Behavior and Health (DPBH) regulations. Plants and seeds must be obtained from a legal source or acquired from a designated grower or personal use license holder under the prior medical cannabis program. Equipment used is specialized but is readily available and not specific to the cultivation of cannabis.

The main skill set required in the development and manufacture of CBD-Infused Products is an understanding of cosmetic chemistry. People with this education and experience are available.

1933 Industries is a progressive company that values employment equity. The Company seeks to hire and promote the most qualified candidates. Collectively, the Company's board and management boasts well over 100 years of experience in cannabis, finance, capital markets and consumer packaged goods. The Company is committed to the principles of equal employment and complies with all federal, state, and local laws providing equal employment opportunities, and all other employment laws and regulations. All staff are properly trained to ensure the safety and welfare of all employees and of its cultivation facility, adhering to strict state, city and Company guidelines. As of the date of this AIF, the Company in aggregate employs 76 staff members.

## **Competition and the Environment**

Being the first to market has given the Company a distinct advantage and head start in developing strong relations with retail dispensaries and the local patient and customer base. Cannabis is a rapidly growing market expected to increase upwards of 300% each year. This allows for competition in the marketplace without negatively impacting sales potential for market leaders like the Company.

In addition, as more U.S. jurisdictions pass state legislation allowing recreational use of cannabis, the Company expects an increased level of competition in the U.S. market. Since July 1, 2017, the opening of cannabis in Nevada to non-medicinal participants, in which the Company operates, has spurred an increase of new entrants. A number of companies listed on the CSE have already begun expanding operations to states that have decriminalized cannabis consumption. The increasingly competitive U.S. markets may adversely affect the financial conditions and operations of the Company.

Although the flood of new entrants is increasing competition, due to unclear regulatory frameworks regarding alternative cannabis product categories, many companies have placed an overwhelming emphasis on the cultivation of raw flower. Consequently, a unique opportunity has emerged as consumers demand alternative methods of cannabis consumption. As the nascent cannabis industry has developed over the last decade, consumers have become more knowledgeable on the products they are purchasing, and as a result, demand greater variety and accessibility.

Nevada's strictly regulated market bans the use of many chemical fertilizers and harmful pesticides. Marijuana establishments are also required to implement scent remediation techniques in order to reduce or remove the smell of cannabis emanating from the facilities. Because the Company operates a cultivation facility, scent remediation is an element of its operations. The Company is required to adhere to the terms of Nevada's state and local regulations. Nevada also favors the use of green energy and water reduction; therefore, the Company has adopted strict policies and procedures to ensure that it is using natural resources as conservatively as possible. Water usage is especially critical given Nevada's particular environmental concerns. The importance of proper water usage and waste disposal cannot be overstated. The Company's cultivation facility includes a 12,000-gal reverse osmosis storage system. This feature is significant as the volume of water stored allows the Company to mitigate the risk of a service interruption.



There are numerous small companies competing in the CBD-Infused products segment. As most sales in this segment would be user-based, there is a relatively low capital threshold to enter this business. There is also minimal regulatory or licensing requirements.

## **Foreign Operations**

The Company operates directly in the Medical and Recreational Cannabis industry in the United States where local state laws permit such activities. As a result, the Company's business plan is dependent on the performance and growth of such industries. In addition, the distribution, possession, and consumption of cannabis remains illegal under U.S. federal law. There is a growing movement in the United States supporting the legalization of cannabis for medical, as well as non-medical purposes. However, the U.S. federal government has not enacted legislation reflecting such movement and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the CSA. While the U.S. federal government has, by its actions, indicated that its present intention is to not enforce federal laws relating to cannabis where the conduct at issue is legal under applicable state law, there can be no guarantee that it will not enforce such laws in the future. Further, there is no guarantee that U.S. state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's business would be materially and adversely affected.

## **Regulatory Regime**

Changes in both state and federal law and the enforcement of those laws could have a material positive or negative impact on the Company's operations. The Company is also looking at other states for prospective business opportunities should changes in regulations occur that are favorable to the Company's business. For further discussion regarding the risk factors relating to the Company's business see "*Description of the U.S. Legal Cannabis Industry*" and "*Risk Factors*".

## ***License and Residency Requirements***

All U.S. States that have legalized Medical or Recreational Cannabis impose a range of requirements on the entities wishing to become Licensed Operators, including obtaining a License from state governmental authorities. The State of Colorado, for example, imposes a residency requirement for licensed operators and their individual owners. Other states (such as Nevada, Illinois and Arizona) do not impose a residency requirement. The Company's strategy in the states with residency requirements is focused on providing services to the industry rather than directly owning production or retail operations. The Company will continue to evaluate potential opportunities in other U.S. States on a case by case basis.

## ***State of Nevada Regulatory Regime***

The State of Nevada has some of the most stringent testing, monitoring and inventory controls in the world. All products are tested for contaminants, pesticides and mold to ensure the safe use by consumers. In addition, all products are labeled with warnings and are packed in tamper-proof containers with detailed content information to protect consumers and assure proper dosing.

Finally, the state requires detailed tracking of all plants and finished products using a complex radio frequency identification (RFID). The Company is committed to these security systems, controls and the state regulations. Company branded THC and CBD vape products do not contain vitamin E acetate, vegetable glycerin, or propylene glycol. All products are made with ingredients that are known to be safe for consumers. All packaging contains product ingredients, and each and every product is third-party lab tested, and the results can be tracked via a QR code.

From seed to sale, the Company offers a unique approach to compliance and transparency. All Canna Hemp™ products undergo rigorous testing to ensure the purity and safety of its CBD. The CBD is tested with independent certified laboratories to ensure that it is THC-free and contains no harmful chemicals or pesticides. In addition, all finished CBD products are tested with independent certified laboratories and every product is labelled with a QR code linking to the lab results, thereby ensuring that the CBD content listed on the label is accurate.

The cannabis market in Nevada is robust and has grown dramatically since recreational use was approved beginning July 1, 2017. Prices have risen and with the cultivation tax of 15% of state determined fair market value, the state is generating millions of dollars a year in new tax revenues. The tax regime has aligned the interests of the state legal cannabis industry with that of the local government leaders. The Company believes that this will lead to better relationships with the regulators and that through improved education, the general public will become more aware of the potential health benefits of properly controlled cannabis and cannabis products. AMA is a part of that growing group of companies operating within the conflicting dual systems of state versus federal cannabis regulations.

Generally speaking, five types of cannabis establishments are currently regulated and require appropriate licensure in Nevada: (i) cultivation facilities; (ii) producers of edible or cannabis-infused products; (iii) dispensaries and stores; (iv) distributors; and (v) independent testing laboratories. The Nevada legislature recently approved a new type of license: consumption lounge. The CCB is in the process of promulgating rules to govern the issuance of these new licenses. The CCB is projecting that consumption lounges will be open for business in the second half of 2022. Additionally, all officers, employees and volunteers must: (i) be at least 21 years of age; (ii) submit information, including fingerprints, to the DPBH; (iii) undergo a background check; (iv) not have a prior conviction for an excluded felony offense; (v) be compliant with all child support orders; (vi) be issued agent registration cards; and (vii) not have had a prior medical cannabis establishment registration card revoked for any reason.

Nevada has set a maximum number of dispensary certificates that may be issued, on a per-county basis. The City of Las Vegas is located in Clark County, the largest county in Nevada. Clark County has currently issued the maximum dispensary licenses with possible additional license opportunities in the future.

The first cultivation license in Southern Nevada was issued to AMA in April of 2015. It sold its first cannabis in October 2015 and has been growing and selling cannabis in compliance with state law ever since.

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

### General

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – *Issuers with U.S. Marijuana-Related Activities* (“CSA Notice 51-352”), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved.

In accordance with CSA Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding cannabis regulation.

### Use of Cannabis

Medical cannabis refers to the use of cannabis and its constituent cannabinoids, such as THC and CBD as medical therapy to aid in treating disease or alleviating symptoms. The cannabis plant has a history of medicinal use dating back thousands of years across many cultures.

Smoking cannabis is the most traditional form of ingestion and consists of smoking the dried flowers or leaves of the cannabis plant. Cannabis can be smoked through a pipe, rolled into a joint (or cigarette), or smoked using a water pipe (bong). Vaporizing involves using a vaporizer, which is a device that is able to extract the therapeutic ingredients in the cannabis plant material at a much lower temperature than required for burning. This allows user to inhale the active ingredients as a vapor instead of smoke. Many medical marijuana patients find that vaporizing offers an improved medical effectiveness, compared to smoking.

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

### Legal and Regulatory Matters

#### United States Federal Overview

In the United States, 37 states, Washington D.C. and Puerto Rico have legalized medical cannabis, while 18 states and Washington D.C. have also legalized adult-use cannabis. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the CSA. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law,

whereby many states have elected to regulate and remove state- level penalties regarding a substance which is still illegal at the federal level.

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

On January 4, 2018, the Cole Memorandum was rescinded by Attorney General Jeff Sessions. While this did not create a change in federal law - as the Cole Memorandum was not itself law - the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated.

Sessions also issued a one-page memorandum known as the ‘Sessions Memorandum’. This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was “unnecessary” due to existing general enforcement guidance as set forth in the U.S. Attorney’s Manual (the “USAM”). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government’s limited resources, and include “law enforcement priorities set by the Attorney General,” the “seriousness” of the alleged crimes, the “deterrent effect of criminal prosecution,” and “the cumulative impact of particular crimes on the community.”

While the Sessions Memorandum does emphasize that cannabis is a Schedule I controlled substance, and states the statutory view that it is a “dangerous drug and that cannabis activity is a serious crime,” it does not otherwise guide U.S. Attorneys that the prosecution of cannabis-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute cannabis-related offenses.

A summary of the history and current status of regulation of hemp and cannabinoids in the US follows.

In 2014, Congress enacted the Agricultural Act of 2014 (the “2014 Farm Bill”) which provided for the cultivation of industrial hemp as part of agricultural pilot programs for adoption by individual states and research by educational institutions. Approximately 30 states implemented legislation pursuant to the 2014 Farm Bill, which include a variety of requirements relating to registration of cultivators and processors, the involvement of institutions of higher education and permissible commercialization.

In response, the DEA took action and seized shipments of viable hemp seeds into certain states thereby impacting the full implementation of the 2014 Farm Bill. Congress responded by enacting the Consolidated and Further Continuing Appropriations Act, 2015, which contained provisions to block federal law enforcement authorities from interfering with state agencies and hemp growers, and to counter efforts to obstruct agricultural research, stating that “none of the

funds made available” to the US Justice Department and DEA “may be used in contravention” of the 2014 Farm Bill. Similar language was included in the 2016 Consolidated Appropriations Act, and as further support, the U.S. Department of Agriculture (“USDA”) was also blocked from prohibiting the transportation, processing, sale or use of industrial hemp that is grown or cultivated in accordance with the 2014 Farm Bill. This language was carried into the 2017 Consolidated Appropriations Act and also the most recent Consolidated Appropriations Act, 2018 which is in effect until September 30, 2018.

On August 12, 2016, the USDA, with the concurrence of DEA and the U.S. Food and Drug Administration (“FDA”), issued a Statement of Principles on Industrial Hemp with the stated purpose of informing the public on how federal law applies to activities involving industrial hemp that is grown and cultivated in accordance with the 2014 Farm Bill. It acknowledged that the Statement of Principles did not establish any binding legal requirements. The USDA attempted to clarify the scope of the 2014 Farm Bill including outlining which conduct was authorized pursuant to the 2014 Farm Bill. The Statement of Principles further outlined that it did not believe the 2014 Farm Bill provided for “general commercial activity.”

In December 2016, the DEA published the “Final Rule” to establish a definition for “marihuana extract”. In the Final Rule, “marihuana extract” was defined for the first time under U.S. law as “an extract containing one or more cannabinoids that has been derived from any plant of the genus Cannabis” and the DEA established a four-digit code for the tracking of “marihuana extract.” The DEA issued a memorandum to clarify the new drug code and claimed the rule is administrative in nature and helps the agency better track research and meet international drug treaty requirements. The memorandum stated that the new drug code was merely a subset of what has always been included in the CSA definition of marijuana. The implication was that that cannabinoids derived from marijuana or hemp were included as a Schedule 1 controlled substance and thus required a DEA permit.

There were questions raised as to whether the DEA had the legal authority to enact the Final Rule and the Final Rule was challenged by the Hemp Industries Association in the Ninth Circuit Court on the basis that the Final Rule unilaterally created a new drug code without following the proper administrative procedures. See *Hemp Industries Association, et al v. US DEA, et al*, Case No. 17- 70162 (9th Cir. filed Jan. 13, 2017). In the DEA’s responding brief in the pending litigation on the Final Rule, the DEA conceded that it maintained no jurisdiction with regard to 2014 Farm Bill activities. Despite the DEA’s concession that it maintained no jurisdiction with regard to 2014 Farm Bill activities, in practice, there remained concern over the extent to which other federal, state and local agencies defer to the DEA’s earlier, negative position towards the 2014 Farm Bill in the Statement of Principles. Potential adverse impacts included limited, misguided enforcement by state and local authorities that might be confused by DEA’s conflicting interpretations of, and misrepresentations of the congressional intent behind, the 2014 Farm Bill hemp’s amendment.

On April 30, 2018, the Ninth District Court issued a memorandum pursuant to which the petition by the Hemp Industries Association was denied due to technical considerations, however, the Court did say that the industrial hemp provisions of the 2014 Farm Bill pre-empt the CSA.

Shortly after the Hemp Industries Association filed its petition blocking enforcement of the Final Rule, it filed another action seeking to direct the DEA to show cause why it should not be held in contempt for failure to comply with a 2004 order that permanently enjoined the DEA from

regulating hemp fiber, stalk, sterilized seed and oil as a controlled substance. In 2003, the DEA issued two final rules: one that expanded the CSA Schedule 1 listing of synthetic THC to include THC “naturally contained in a plant of the genus Cannabis (cannabis plant), and a second that exempted hemp fiber, seed and oil products containing THC not intended for human consumption from control (the “2003 Rules”). The collective result of the 2003 Rules was to classify all naturally-occurring THC intended for human consumption as a Schedule 1 controlled substance. In 2004, the Hemp Industries Association was successful in obtaining an injunction from the Court of Appeals of the Ninth Circuit prohibiting the DEA from enforcing the 2003 Rules (with respect to non-psychoactive hemp or products containing it). See *Hemp Industries Association v. DEA Enforcement Admin.*, 357 F. 3d 1012 (9th Cir. 2004). However, the DEA never took action as a result of the injunction, including not amending its listing of THC in Schedule 1 of the CSA. Until December 2016, the DEA also did not appear to have taken any enforcement action under the enjoined regulation, until the North Dakota Department of Agriculture advised a state- licensed farmer/producer that a planned shipment of hempseed oil out of the state would require a DEA registration, citing the federal CSA. This action prompted Hemp Industries Association to file a motion for contempt with the Court of Appeals of the Ninth Circuit for failing to comply with the 2004 injunction.

On May 25, 2018, the Hemp Industries Association reached a negotiated settlement with the DEA with respect to the longstanding legal action from 2004, to uphold the legality of consumption, manufacturing and sale of hemp food products. This settlement restrains further illegal attempts and actions by the DEA to regulate hemp foods as Schedule I drugs. As noted by the Hemp Industries Association in a press release issued June 8, 2018, significantly, the DEA issued an internal and external directive to federal agencies, with language agreed to by the parties, clarifying that the mere presence of cannabinoids does not render material a controlled substance—as the issue of whether a material constitutes a drug is rather in fact determined by whether the material is derived from the non-exempt parts of the plant. The Hemp Industries Association’s hope is that this directive should provide clarity to federal agencies and minimize interference with the expanding flow of hemp commerce. This directive should also have an impact on certain states that have enacted similar Controlled Substance Acts which prohibit or narrowly restrict the distribution, sale, possession and/or use of any products containing even trace amounts of THC.

As of January 1, 2019, the Agriculture Improvement Act of 2018 (“Farm Bill”), came into effect, legalizing hemp as an agricultural commodity federally in the United States and allowing hemp farming to operate on a commercial scale.

The passing of the Farm Bill is anticipated to:

- Positively impact the Company’s plans to produce CBD extracts on a large scale
- Set the stage for an expanded focus on CBD branded goods
- Open new markets across the U.S.
- Increase participation from financial institutions and investors in the U.S.
- Present the opportunity for the Company’s suite of branded products to be carried by major national retailers

The Farm Bill included a provision to legalize hemp cultivation, production and distribution and removes hemp from the federal list of controlled substances and allows hemp farming for industrial purposes across all U.S. States under a new state-regulated environment.

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

For the reasons set forth above, the Company'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, 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 lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risk Factors – Risks Related to the Business of 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 United States or elsewhere. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical or adult-use cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors - Risks Related to the Business of the Company".

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 the Company, 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 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. See "Risk Factors– Risks Related to the Business of the Company".

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

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

Despite these laws, the FinCEN issued a memorandum on February 14, 2014 (the “FinCEN Memorandum”) outlining the pathways for financial institutions to bank state-sanctioned cannabis businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report (“SAR”) in connection with all cannabis-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These cannabis-related SARs are divided into three categories – cannabis limited, cannabis priority, and cannabis terminated – based on the financial institution’s belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively.

On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the “**2014 Cole Memo**”) directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of cannabis-related conduct. With the issuance of the Sessions Memorandum, the 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum.

However, Attorney General Sessions’ revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. However, in the United States, it remains difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution.

In the U.S., the Secure and Fair Enforcement Banking Act, known as the SAFE Banking Act bill was tabled in Congress to grant banks and other financial institutions immunity from federal criminal prosecution for servicing cannabis-related businesses if the underlying cannabis business follows state law. On September 26, 2019, the bill passed the House of Representatives by a vote of 321 to 103. However, there can be no assurance that it will be passed in the Senate in its current form or at all. In both Canada and the U.S., transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions, although such changes appear to be unlikely as a result of the current political climate in the U.S.

Currently, management expects to be able to transfer any funds owed to the Company by its subsidiaries into bank accounts held by the Company outside of the United States. However, given the regulatory uncertainty with respect to banking and cannabis in the United States, such ability to transfer may be eliminated and/or hampered at any time. In the foreseeable future, the Company expects any amounts payable by the Company from its subsidiaries to remain in the United States to fund the further development of its businesses. The Company may also consider future debt or equity financings.



## *Extension of the RBA*

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently the “Rohrabacher-Blumenauer Amendment” or the “RBA”) to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against regulated medical marijuana actors operating in compliance with state and local law. However, this measure does not protect adult use cannabis businesses. As part of the \$1.3 trillion federal spending bill enacted on March 23, 2018, the U.S. Congress renewed the Rohrabacher-Blumenauer Amendment through September 2018. The RBA is an appropriations rider with bipartisan support that prohibits the DOJ from using federal funds to prevent states from implementing Medical Marijuana laws. The U.S. Ninth Circuit in *United States v. McIntosh* held that the prohibition under the Rohrabacher-Blumenauer Amendment also prevents the DOJ from spending federal funds to prosecute individuals who are engaged in conduct that is permitted by, and in compliance with, state medical marijuana laws. This is the eleventh time the Rohrabacher-Blumenauer Amendment has been approved or renewed since its first passage in 2014.

Following a partial shutdown of the US government, which ended on January 25, 2019, the US Congress passed a temporary appropriations bill funding the United States government until February 15, 2019. The temporary bill included what is now referred to the “**Joyce/Leahy Amendment**”, including similar language to the Rohrabacher Leahy Amendment, which was renewed through the Fiscal Year 2019 Omnibus Spending Bill. Renewed again several times, from December 20, 2019 through to September 30, 2020 via the Fiscal Year 2020 omnibus spending bill, the amendment was later excluded from President Trump’s 2021 budget plan released in February 2020.

In July 2020, the House of Representatives passed the “**Blumenauer-McClintock-Norton-Lee Amendment**”, to the Commerce, Justice, Science (CJS) appropriations bill, which continued the Joyce/Leahy Amendment’s protections for state medical cannabis programs. It also extended protections to include recreational programs in such states where recreational cannabis is legal. Although the House of Representatives passed the CJS appropriations bill, it was not heard in the Senate, as Majority Leader Mitch McConnell opposes marijuana legalization. The Senate agreed to continue protections for medical cannabis-only programs and any proposals to include adult use programs remains to be seen with the upcoming US election.

The Blumenauer Amendment provided the same protections from federal prosecution to state-legal medical and adult use cannabis programs. However, since it did not pass the Senate, there can be no assurances that a Republican-controlled Senate will include the Joyce/Leahy Amendment in the final Fiscal Year 2021 appropriations package, and therefore, there can be no assurances that the federal government will not seek to prosecute businesses that are compliant with State laws relating to adult-use cannabis.

Congress has grown increasingly active around potential federal cannabis legislation, and there is growing hope that the current administration will make comprehensive federal cannabis legislation a priority before the end of its term in 2024.

## ***Compliance with Federal Laws***

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

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

In addition, the Company may conduct background checks to ensure that the principals and management of its operating subsidiaries are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis. The Company will also conduct ongoing reviews of its cannabis business activities, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of the licensed premises, including the cases where such possession is permitted by regulation.

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

This section presents an overview of market and regulatory conditions for the cannabis industry in Nevada.

The Nevada Division of Public and Behavioral Health (the “Division”) licensed medical marijuana establishments up until July 1, 2017 when the state’s medical marijuana program merged with adult-use cannabis enforcement under the Nevada Department of Taxation (“DoT”). Nevada’s Governor created the Cannabis Compliance Board (the “CCB”), and as of July 1,

2020, governance of the state's cannabis program is now under the purview of the CCB. In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process was merit-based, competitive, and is currently closed. The state of Nevada currently has 159 medical and/or recreational cultivation facilities, 111 medical and/or recreational production facilities, 71 medical and/or recreational dispensaries, and 10 independent testing laboratories.

Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase cannabis from Nevada retail dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Nevada's current regulations governing the regulation of cannabis are chapters 678A, 678B, 678C and 678D of the Nevada Revised Statutes. Under Nevada's adult-use marijuana law, the CCB licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. For the first 18 months after adult-use legalization, applications to the DoT for adult-use establishment licenses were only accepted from existing medical marijuana establishments and existing liquor distributors for the adult-use distribution license.

The issuance of retail cannabis distribution licenses has been subject to an ongoing legal battle after the DoT opened distribution licenses to existing medical cannabis establishments based on the premise that there was an insufficient number of applications from existing liquor distributors to service the new adult-use cannabis market. This has since resolved and existing medical cannabis establishments were able to apply for a cannabis distributor license. There are currently 47 licensed distributors.

Medical and adult-use cannabis is subject to a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis is subject to an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

The CCB is responsible for licensing and regulating retail cannabis businesses and the medical marijuana program in Nevada. There are five types of retail cannabis establishment licenses:

- *Cultivation Facility* – Licenses to: cultivate (grow), process, and package cannabis; have cannabis tested by a testing facility; and, sell cannabis to retail cannabis stores, to cannabis product manufacturing facilities, and to other cultivation facilities, but not to consumers.
- *Distributor* - Licenses to transport cannabis from a cannabis establishment to another cannabis establishment.
- *Product Manufacturing Facility* - Licenses to: purchase cannabis; manufacture, process, and package cannabis and cannabis products; and, sell cannabis and cannabis products to other product manufacturing facilities and to retail cannabis stores, but not to consumers.

- *Testing Facility* - Licenses to test cannabis and cannabis products, including for potency and contaminants.
- *Retail Store* - Licenses to: purchase cannabis from cultivation facilities, cannabis and cannabis products from product manufacturing facilities, and cannabis from other retail stores; and, sell cannabis and cannabis products to consumers.

The regulated retail cannabis program began in early 2018. The Regulation and Taxation of Marijuana Act specified that, for the first 18 months of the program, only existing medical marijuana establishment certificate holders could apply for a retail cannabis establishment license. Beginning in November 2018, the DoT opened up the application process to those not holding a medical marijuana establishment certificate. The regular program is now governed by permanent regulations drafted by the CCB. The application period for new cannabis licenses is closed.

The Nevada Legislature passed Senate Bill 305 (“SB 305”), which adopted Section 7606 of the 2014 Farm Bill. SB 305 allows eligible persons or entities in Nevada to carry out research projects as part of the pilot program within the State of Nevada under the guidance of the Department of Agriculture.

SB 305 sets the basic parameters for hemp programs in Nevada. It defines industrial hemp as “the plant *Cannabis sativa* L. and any part of such plant, whether growing or not, with a THC concentration of not more than 0.3 percent on a dry weight basis.” SB 305 required all producers or handlers of hemp to register with the Nevada Department of Agriculture and gave it the authority to restrict or prohibit the production of CBD oil or products from legally-grown industrial hemp plants.

Under SB 305, the Nevada Department of Agriculture was given regulatory authority over the industrial hemp program in Nevada, including:

- Acting as seed handler, procuring and delivering seed;
- Enforcing regulations to ensure proper legality with cultivation activity;
- Performing inspections to maintain research credibility and hemp status; and
- Providing industry support to assist with sustainable growth and development.

Senate Bill 396 (“SB 396”) expanded the industrial hemp program in Nevada to include the production of hemp for commercial purposes. SB 396 also provides for the regulated production of seeds at licensed hemp farms in Nevada. Under SB 396, the Department of Agriculture maintains regulatory authority over the industrial hemp program. SB 396 also allows for testing of industrial hemp at a Nevada independent testing laboratory (which is a licensed marijuana establishment) and also allows for a facility for the production of cannabis-infused products and a cannabis dispensary to purchase industrial hemp from a grower or handler of industrial hemp.

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

The Company believes it is in compliance with U.S. state law and the related licensing framework. The Company uses reasonable commercial efforts to confirm, through the advice of

its U.S. counsel, through the monitoring and review of its business practices, and through regular monitoring of changes to U.S. federal enforcement priorities, that its businesses are in compliance with applicable licensing requirements and the regulatory frameworks enacted by Nevada. The Company's U.S. based subsidiaries have not received non-compliance orders, citations or notices of violation that may have an impact on such entities licenses, business activities or operations.

### ***Regulatory Risks***

The U.S. cannabis industry is highly regulated, highly competitive and evolving rapidly. As such, new risks, potentially affecting the Company may emerge. Management of the Company may not be able to predict all such risks or be able to predict how such risks may impact the Company's operations and actual results.

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

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

The Company expects to derive all, or substantially all, of its revenues from the U.S. cannabis industry, which industry is illegal under U.S. federal law. As a result of the conflicting views between the state and federal governments regarding cannabis, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The Company expects to remain focused on operating in those U.S. states that have legalized the medical and/or adult-use of cannabis. Almost half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on THC, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC. However, the U.S. federal government has not enacted similar legislation and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the CSA.

As discussed above, the federal government of the U.S. has specifically reserved the right to enforce federal law in regards to the sale and disbursement of medical or adult-use use marijuana even if state law has sanctioned such sale and disbursement. Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry.

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

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

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

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

The Company has historically relied on access to both public and private capital in order to support its continuing operations, and the Company expects to continue to rely almost exclusively on the capital markets to finance its business in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and despite the legal standing of cannabis businesses pursuant to U.S. federal laws, Canadian-based issuers involved in the U.S. legal cannabis industry have been successful in raising substantial amounts of private and public financing. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due their unwillingness to be associated with activities which violate U.S. federal laws.

### ***Canadian Securities Regulatory Matters***

The Company's involvement in the U.S. cannabis industry may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It had been reported in Canada that the Canadian Depository for Securities Limited was

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

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (“MOU”) with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the U.S.

The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis related activities in the 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 Shares to make and settle trades. In particular, the Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Shares through the facilities of the applicable stock exchange.

### ***Heightened Scrutiny***

For the reasons set forth above, the Company’s activities in the U.S. may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company’s activities in the U.S. or any other jurisdiction, in addition to those described herein.

### ***Change in Laws, Regulations and Guidelines***

The Company’s proposed business operations will directly and indirectly be affected by a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis, but also including laws and regulations relating to consumable products health and safety, the conduct of operations and the protection of the environment.

These laws and regulations are broad in scope and subject to evolving interpretations, which could require participants to incur substantial costs associated with compliance or alter certain aspects of its business plans. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company’s business plans and result in a material adverse effect on certain aspects of its operations.

### ***Unfavourable Publicity or Consumer Perception***

The legal cannabis industry in the U.S. is at an early stage of its development. Cannabis has been, and will continue to be, a controlled substance for the foreseeable future. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. 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 favourable 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 favourable 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 cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Public opinion and support for medical and adult-use marijuana has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). The Company's ability to gain and increase market acceptance of its business activities may require substantial expenditures on investor relations, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful and their failure may have an adverse effect on the Company.

### ***Regulatory Issues Related to CBD Derived From Industrial Hemp***

In 2014, the United States Congress passed the Agricultural Act, better known as the Farm Bill. As part of the Farm Bill, Congress excluded industrial hemp from the definition of marijuana under the CSA. As part of a recent settlement agreement with the hemp industry, the Drug Enforcement Administration has taken the position that only products produced solely from hemp are legal, but has also stated that the scientific literature indicates that CBD comes from the parts of the cannabis plant that are covered by the definition of marijuana.

In 2018 Congress introduced a new Farm Bill that includes a clarification that CBD derived from hemp is excluded from the definition of marijuana under the CSA and is, therefore, federally legal. The 2018 Farm Bill was approved by Congress. The USDA recently provided guidelines for states to submit hemp programs to the USDA for approval. Nevada is among the states preparing to submit for approval of its hemp program. The Company is actively monitoring the USDA's approval process.

## **RISK FACTORS**

***Holder of securities of the Company should carefully consider the following risk factors in addition to the other information contained in this AIF. The risks and uncertainties below are not the only ones related to the Company. There are additional risks and uncertainties that the Company does not presently know of or that the Company currently considers immaterial***



*which could become material, may also impair the Company's business operations. If any of the following risks actually occur, the Company's business may be harmed and its financial condition and results of operations may suffer significantly. Other risk factors are set forth in the Company's Financial Statements and MD&A, which are incorporated by reference into this AIF.*

## **Risks Related to the Business of the Company**

### ***Risks related to COVID-19***

At the time this AIF is prepared, the Company cautions that its business could be materially and adversely affected by the risks, or the public perception of the risks, related to the COVID-19 pandemic. The risk of a pandemic, or public perception of such a risk, could cause temporary or long-term disruptions in the Company's supply chains and/or delays in the delivery of its products. Further, such risks could also adversely affect the Company's customers' financial condition, resulting in reduced buying of its products. Moreover, an epidemic, pandemic, outbreak or other public health crisis, such as COVID-19, could cause employees to avoid the Company's properties, which could adversely affect its ability to adequately staff and manage its businesses. "Shelter-in-place" or other such orders by governmental entities could also disrupt the Company's operations, if employees who cannot perform their responsibilities from home are not able to report to work. Risks related to an epidemic, pandemic or other health crisis, such as COVID-19, could also lead to the complete or partial closure of one or more of the Company's stores, facilities or operations of its partners. Although the Company's customer's dispensaries may be considered essential services and therefore be allowed to remain operational, they have in the past only been permitted to provide delivery services to customers.

We are actively assessing and responding, where possible, to the effects of the COVID-19 pandemic on employees, customers, suppliers and service providers, and evaluating governmental actions being taken to curtail its spread. At our facilities that continue to operate, in accordance with applicable laws, we are taking steps to safeguard employees through enhanced administrative controls, reconfiguration of production workflows, employee monitoring strategies, more rigorous cleaning and hygiene practices, as well as physical distancing and the availability of personal protective equipment in certain circumstances. In addition, employees who can work remotely are doing so. We are also taking measures to manage costs, including a reduction of operating expenses and the exploration of applicable government programs. Such measures and government mandates in response to the pandemic may not be effective and one or more of the Company's employees may get sick and may come to work infected, necessitating a short or long-term closure of the affected facilities, disrupting production. Such measures and mandates may also increase the Company's expenses and otherwise impair the Company's production levels or cause it to close or severely limit production at its facilities. Consumer demand for cannabis may be reduced as a result of reductions in consumers' disposable income associated with lay-offs and work or pay limitations due to mandatory social distancing and lockdown measures. Production limitations or stoppages, social distancing measures and other impediments affecting the Company's suppliers, partners or producers of goods, should they materialize, may make it difficult, more costly, or impossible for the Company to produce or distribute cannabis, or otherwise market and sell its products. Limitations on the function of regulators as a result of remote work of its employees or redeployment of its resources to addressing the pandemic may delay the Company's communications with the regulatory authorities and delay renewal of its existing licenses or the

receipt of additional licenses required for the Company's operations, should such licenses be sought. If macroeconomic conditions continue to worsen in the United States and the rest of the world, demand for cannabis may significantly decline and industry participants, including the Company's customers and suppliers, may face financial hardship. In addition, the increased market volatility resulting from global business and economic disruption related to the pandemic and measures to contain it has made it more difficult for companies to access capital markets. Such volatility has hampered, and may in the future hamper the Company's efforts to secure additional financing. The duration and severity of the COVID-19 pandemic is currently unknown and the pandemic may continue for a significant period of time. Any of the foregoing may adversely affect the Company's financial position, results of operations and liquidity. The longer the pandemic continues, the more severe such impacts may be. Depending on the duration and severity of the current COVID-19 pandemic, it may also have the effect of heightening many of the other risks described in this AIF, such as risks relating to our ability to renew licenses or our ability to maintain adequate internal controls in the event that our employees are restricted from accessing our regular offices for a significant period of time. The ultimate extent of the impact of any epidemic, pandemic or other health crisis on the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. These and other potential impacts of an epidemic, pandemic or other health crisis, such as COVID-19, could therefore materially and adversely affect the Company's business, financial condition and results of operations.

#### ***Risk Relating to the United States Regulatory System***

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

The Company incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect

its ability to conduct business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future.

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

**This AIF involves an entity that is expected to continue to derive substantially all of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law.** Currently, the Company is directly engaged in the manufacture and possession of cannabis in the medical and recreational cannabis marketplace in the United States. **The enforcement of relevant laws is a significant risk.**

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, 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 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.

### ***Risk of Heightened Scrutiny by Regulatory Authorities in Canada***

For the reasons set forth above, the Company'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, 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 invest in the United States or any other jurisdiction, in addition to those described herein.

Although the TMX MOU has confirmed that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid and, until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility

with the DTC for its Common Share quotation on the OTCQB, and later as an OTCQX company, and such DTC eligibility provides another possible avenue to clear Shares in the event of a CDS ban.

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 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 cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

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

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

### ***Change in Laws, Regulations and Guidelines***

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To its knowledge, the Company is currently in compliance with such laws in all material respects. 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.

While the impact of the changes are uncertain and are highly dependent on which specific laws, regulations or guidelines are changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on the Company's operations that is materially different than the effect on similar-sized companies in the same business as the Company.

Local, state and federal laws and regulations governing marijuana for medicinal and recreational 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.

### ***Risks Associated with the Change in U.S. Administrations***

There is uncertainty as to the position the United States will take with respect to world affairs and events. This uncertainty may include issues such as enforcement of the U.S. federal laws. Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Company, decrease U.S. demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and operations.

### ***Risks Concerning Banking***

The U.S. federal prohibitions on the sale of cannabis may result in the Company and its partners being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. Banking restrictions could be imposed due to the Company's banking institutions not accepting payments and deposits. The Company is at risk that any bank accounts it has could be closed at any time. Such risks increase costs to the Company. Additionally, similar risks are associated with large amounts of cash at its business locations. These locations require heavy security with respect to holding and transport of cash.

The guidance provided in the FinCEN Memo may change depending on the position of the U.S. government administration at any given time and is subject to revision or retraction in the future, which may restrict the Company's access to banking services.

In the event financial service providers do not accept accounts or transactions related to the cannabis industry, it is possible that the Company may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues. If the industry was to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

### ***Product Liability, Operational Risk***

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces 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 and CBD-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 products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in

increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's products.

Should the Federal government legalize marijuana for medical or recreational 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. Additionally, the state of California has recently stated that it will only approve certain food related products for sale once approved by the FDA. The FDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical and adult use marijuana and CBD infused products. Clinical trials may be needed to verify efficacy and safety of medical and adult use marijuana. It is also possible that the FDA would require that facilities where medical and adult use 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 is unable to comply with the regulations and or registration as prescribed by the FDA or another federal agency, the Company may be unable to continue to operate in its current form or at all.

### ***Product Recall Risks***

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 it or by licensed producers 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. The Company may lose a significant amount of revenue due to a loss of and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has established procedures to test finished products (in connection with Nevada state requirements), there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could

materially and adversely affect the Company's business, financial condition and results of operations.

### ***Risks Inherent in an Agricultural Business***

The Company's business will involve the growing of cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company expects that its products will be grown indoors under climate-controlled conditions, carefully monitored by trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

### ***Vulnerability to Rising Energy Costs***

Cannabis growing operations consume considerable energy, making such operations vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

### ***Transportation Disruptions***

Due to the perishable and premium nature of agricultural products, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

### ***Unfavourable Publicity or Consumer Perception***

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana produced. Consumer perception of cannabis products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana 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 medical 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 the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for medical marijuana products, and 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 medical marijuana in general, or the Company's products specifically, or associating the consumption of medical marijuana 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

even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

### ***Uninsurable Risks***

The medical and adult use cannabis business is 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 Company does not currently have any insurance policies covering its properties or the operation of its business and any liabilities that may arise as a result any of the above-noted risks may cause a material adverse effect on the financial condition of the Company.

### ***The Company May Not Be Able to Accurately Predict its Future Capital Needs and it May Not Be Able to Secure 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. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms, or at all. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. 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. If adequate funds are not available on acceptable terms or at all, the Company may be unable to develop or enhance its services and products, take advantage of future opportunities, repay debt obligations as they become due, or respond to competitive pressures, any of which could have a material adverse effect on its business, prospects, financial condition, and results of operations.

### ***Threats from Illegal Drug Dealers***

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade cannabis 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***

The success of the Company is currently dependent on the performance of its Chief Executive Officer, President, and board of directors. The loss of the services of these persons would have a material adverse effect on the Company's business and prospects in the short term. There is no



assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

### ***Factors Which May Prevent Realization of Growth Targets***

The Company is currently in the early growth stage. There is a risk that the 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:

- maintaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labor costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labor 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.

### ***Competitive Risks***

The cannabis industry is highly competitive. The Company will compete with numerous other businesses in the medical and adult use marijuana industry, many of which possess greater financial and marketing resources and other resources than the Company. The cannabis 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 labor, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

Due to the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. If the number of legal users of cannabis in its target jurisdictions 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. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development,

marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

### ***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.

### ***Difficulties in Forecasting***

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 cannabis industry in 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.

### ***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 will be generated by the Company's operating subsidiaries. The Company's subsidiaries are subject to requirements of various regulatory bodies, both domestically and internationally, specifically in the United States. 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.

### ***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.

### ***Currency Fluctuations***

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that substantially all 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 in its cannabis and CBD infused products segments. 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. Currency exchange fluctuations may also materially adversely affect the Company's future cash flow from operations, its results of operations, financial condition and prospects.

### ***Enforcement of Legal Rights***

In the event of a dispute arising from the Company's U.S. operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada. Similarly, to the extent that the Company's assets are located outside of Canada, investors may have difficulty collecting from the Company any judgments obtained in the Canadian courts and predicated on the civil liability provisions of securities provisions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental entity or instrumentality because of the doctrine of sovereign immunity.

### ***Global Financial and Economic Conditions***

Current global financial and economic conditions remain extremely volatile. Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain debt and equity financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

### ***Conflicts of Interest***

Certain officers and directors of the Company are also officers and/or directors of other entities engaged in the cannabis industry generally. As a result, situations may arise where the interest of such directors and officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the BCBCA. The BCBCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the BCBCA.

In addition, the directors and officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.

### ***Success of Quality Control Systems***

The quality and safety of the Company's products are critical to the success of its business and operations. As such, it is imperative that the Company's (and its service provider's) quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on the Company's business and operating results.

### ***Inability to Renew Material Leases***

The Company may be unable to renew or maintain its leases (commercial or real property) on commercially acceptable terms or at all. An inability to renew its leases, or a renewal of its leases with a rental rate higher than the prevailing rate under the applicable lease prior to expiration, may have an adverse impact on the Company's operations, including disruption of its operations or an increase in its cost of operations. In addition, in the event of non-renewal of any of the Company's leases, the Company may be unable to locate suitable replacement properties for its facilities or it may experience delays in relocation that could lead to a disruption in its operations. Any disruption in the Company's operations could have an adverse effect on its financial condition and results of operations.

### ***Obtaining Insurance***

Due to the Company's involvement in the cannabis industry, it may have a difficult time obtaining the various insurances that are desired to operate its business, which may expose the Company to additional risk and financial liability. Insurance that is otherwise readily available, such as general liability, and directors and officer's insurance, may be more difficult to find, and more expensive, because of the regulatory regime applicable to the industry. There are no guarantees that the Company will be able to find such insurance coverage in the future, or that the cost will be affordable. If the Company is forced to go without such insurance coverage, it may prevent it from entering into certain business sectors, may inhibit growth, and may expose the Company to additional risk and financial liabilities.

### ***Inability to Protect Intellectual Property***

The Company's success is heavily dependent upon its intangible property and technology. The Company relies upon copyrights, patents, trade secrets, unpatented proprietary know-how and continuing innovation to protect the intangible property, technology and information that is considered important to the development of the business. The Company relies on various methods to protect its proprietary rights, including confidentiality agreements with consultants, service providers and management that contain terms and conditions prohibiting unauthorized use and disclosure of confidential information. However, despite efforts to protect intangible property rights, unauthorized parties may attempt to copy or replicate intangible property, technology or processes. There can be no assurances that the steps taken by the Company to protect its intangible property, technology and information will be adequate to prevent misappropriation or independent third-party development of the Company's intangible property, technology or processes. It is likely that other companies can duplicate a production process

similar to the Company's. Other companies may also be able to materially duplicate the Company's proprietary plant strains. To the extent that any of the above would occur, revenue could be negatively affected, and in the future, the Company may have to litigate to enforce its intangible property rights, which could result in substantial costs and divert management's attention and other resources.

The Company's ability to successfully implement its business plan depends in part on its ability to maintain and build brand recognition using its trademarks, service marks, trade dress, domain names and other intellectual property rights, including the Company's names and logos. If the Company's efforts to protect its intellectual property are inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on the Company's business and might prevent its brands from achieving or maintaining market acceptance.

The Company may be unable to obtain registrations for its intellectual property rights for various reasons, including prior registrations of which it is not aware, or it may encounter claims from prior users of similar intellectual property in areas where it operates or intends to conduct operations. This could harm its image, brand or competitive position and cause the Company to incur significant penalties and costs.

## **Risks Relating to Investment in the Company**

### ***Volatility of Stock Markets***

Securities markets experience a high level of price and volume volatility, and the market price of securities of many companies has experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Factors unrelated to the financial performance or prospects of the Company include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries.

These fluctuations may affect the ability of holders of the Company's securities to sell their securities at an advantageous price. The market price of such securities may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset 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 Common Shares or other securities of the Company may be materially adversely affected.

As a result of any of these factors, the market price of the securities of the Company at any given point in time may not accurately reflect the long-term value of the Company.

### ***Risk Factors Related to Dilution***

The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company. The Company's constating documents permit the issuance of an unlimited number of Common Shares. The Company's shareholders do not have pre-emptive

rights in connection with any future issuances of securities by the Company. The directors of the Company have discretion to determine the price and the terms of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under its stock option plan and upon the exercise of outstanding convertible securities.

### ***Additional Financing***

The continued development of the Company will require additional financing. There is no guarantee that the Company will be able to achieve its business objectives. The Company intends to fund its future business activities by way of additional offerings of equity and/or debt financing as well as through anticipated positive cash flow from operations in the future. The failure to raise or procure such additional funds or the failure to achieve positive cash flow could result in the delay or indefinite postponement of current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Company. If additional funds are raised by offering equity securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve the granting of security against assets of the Company and also contain restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company will require additional financing to fund its operations until positive cash flow is achieved.

### ***Dividends***

The Company does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Any decision to declare and pay dividends in the future will be made at the discretion of the Company's board of directors and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Company's board of directors may deem relevant.

### ***Forward-Looking Information May Prove Inaccurate***

Readers are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. See "Forward-Looking Information".

### ***It May Be Difficult, If Not Impossible, For U.S. Holders of the Company's Securities to Resell Them over the CSE***

Major securities clearing firms in the U.S. have ceased participating in transactions related to securities of Canadian public companies involved in the cannabis industry. This appears to be due to the fact that cannabis continues to be listed as a controlled substance under U.S. federal law, with the result that cannabis-related practices or activities, including the cultivation,

possession or distribution of cannabis, are illegal under U.S. federal law. However, management understands that the action by U.S. securities clearing firms also extends to securities of companies that carry on business operations entirely outside the U.S. Accordingly, U.S. residents who acquire the Company's securities may find it difficult – if not impossible – to resell such securities over the facilities of any Canadian stock exchange on which the shares may then be listed. It remains unclear what impact, if any, this and any future actions among market participants in the U.S. will have on the ability of U.S. residents to resell any securities of the Company that they may acquire in open market transactions.

***Canadian Investors in the Company's Securities and the Company's directors and officers may be Subject to Travel and Entry Bans into the United States***

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, which has in at least two widely-reported incidents included an investor in companies operating in the cannabis sector in states where it is legal to do so, which resulted in both cases in a lifetime ban to the investor.

The majority of persons travelling across the Canadian and U.S. border do so without incident. Some persons are simply barred entry one time. The U.S. Department of State and the Department of Homeland Security has indicated that the United States has not changed admission requirements in response to the pending legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the United States may be increasing enforcement of its federal laws regarding cannabis-related practices or activities, including the cultivation, possession or distribution of cannabis.

Admissibility to the United States may be denied to any person working or 'having involvement in' the cannabis industry, including in U.S. states where it is deemed legal, according to United States Customs and Border Protection. Additionally, legal experts have indicated that the criteria are applied broadly such that a determination that the act of investing, working or collaborating with a U.S. cannabis company may be considered trafficking illegal drugs or aiding, abetting, assisting, conspiring or colluding in its trafficking. 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.

## **DIVIDENDS AND DISTRIBUTIONS**

No dividends have been declared or paid by the Company in any of the periods presented above. The Company does not anticipate declaring or paying any dividends on its Common Shares in the foreseeable future, but no restrictions exist on doing so.

## **DESCRIPTION OF CAPITAL STRUCTURE**

### **Common Shares**

The authorized capital of the Company includes an unlimited number of Common Shares without nominal or par value and an unlimited number of preferred shares issuable in series. As at the date of this AIF, 450,699,319 Common Shares are issued and outstanding as fully paid and non-assessable. In addition, 12,850,000 Common Shares are reserved for issuance under stock

options granted to directors and officers, 70,600,068 share purchase warrants are outstanding, 514,346 compensation options are outstanding and 3,153,214 agent options are outstanding.

The holders of Common Shares are entitled to dividends, if, as and when declared by the Board of Directors, to receive notice of and one vote per Common Share at meetings of the shareholders of the Company and, upon liquidation, to share equally in such assets of the Company as are distributable to the holders of Common Shares subject to the rights of holders of shares of any class ranking in priority to the Common Shares.

The Company also has \$3,671,000 aggregate principal amount of 10% senior unsecured Convertible Debentures outstanding. The Convertible Debentures bear interest from the date of issuance at 10.0% per annum (subject to withholdings for non-residents), payable in cash or through the issuance of Common Shares on the maturity date, and will expire on September 14, 2022. The Debentures are convertible into Common Shares at the option of the holder at any time prior to the close of business on the earlier of: (i) the last business day immediately preceding the Maturity Date; and (ii) the date fixed for redemption as more particularly defined in the Trust Indenture, at a conversion price of \$0.10 per Common Share, subject to adjustment in certain events. Additionally, the Company may force the conversion of all of the principal amount of the then outstanding Convertible Debentures at the Conversion Price on 30 days prior written notice should the daily volume weighted average trading price of the Common Shares be greater than \$0.15 for any 10 consecutive trading days. The Convertible Debentures will be subject to redemption, in whole or in part, by the Company at any time upon giving holders not less than 30 and not more than 60 days' prior written notice, at a price equal to the then outstanding principal amount of the Convertible Debentures plus all accrued and unpaid interest up to and including the redemption date.

On August 6, 2021, the Company received approval from Debentureholders of 10% Unsecured Convertible Debentures Due September 14, 2021 ("Debentureholders") to delist the debentures from the Canadian Securities Exchange ("CSE"). The approval to delist the debentures was a regulatory requirement from the CSE to complete a previously approved amendment to extend the maturity date of its outstanding debentures from September 14, 2021, to September 14, 2022. On August 19, 2021, the CSE delisted the debentures after market close and effective August 20, 2021, the Company entered into an amended supplement indenture with Odyssey Trust to formally extend the maturity date of the debentures.

## **MARKET FOR SECURITIES**

### **Trading Price and Volume**

The Company's shares are listed and posted for trading on the CSE under the trading symbol "TGIF". The following tables set forth the price range per share and trading volume for the Company on the CSE for the most recently completed financial year ended July 31, 2021.



<b>Price Range Per Common Share (\$)</b>			
<b>Date</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
August 2020	0.07	0.055	8,930,994
September 2020	0.065	0.05	10,659,489
October 2020	0.075	0.055	12,288,518
November 2020	0.10	0.065	17,085,257
December 2020	0.075	0.065	11,988,048
January 2021	0.10	0.065	38,422,866
February 2021	0.17	0.08	120,325,912
March 2021	0.12	0.095	23,717,990
April 2021	0.11	0.09	13,747,887
May 2021	0.10	0.085	8,281,450
June 2021	0.11	0.09	9,860,976
July 2021	0.10	0.085	8,437,540

### **Prior Sales**

As at the date of this AIF, the Company has no class of securities that is outstanding but not listed or quoted on a market place.

### **ESCROWED SECURITIES**

As of the date of this AIF, no common shares are held in escrow or that are subject to a contractual restriction on transfer (other than options issued pursuant to the Company's stock option plan or shares restricted to a regulatory hold period).

### **DIRECTORS AND EXECUTIVE OFFICERS**

#### **Name, Occupation and Security Holdings**

The directors and executive officers of the Company as at the date of this AIF is set out in the table below. The number of shares beneficially owned, controlled or directed, directly or indirectly, by each director or executive officer is based on information furnished by the directors and executive officers and from insider reports available under the Company's SEDI profile at [www.sedi.com](http://www.sedi.com).

Name, residence, office(s) held and date first became a director	Current Principal occupation, business or employment and for last five years, and education	Director Since	Shares beneficially owned, or controlled or directed, directly or indirectly
<b>Paul Rosen</b> Toronto, ON, Canada  CEO / Director	June 2020 to present, CEO of the Company.	Sept 1, 2020	13,147,541 (2.9%)
<b>D. Richard Skeith</b> Calgary, AB, Canada  Director  Audit Committee Member	Partner at Dentons Canada LLP; Previously Partner at Norton Rose Fulbright Canada LLC (formerly Macleod Dixon LLP) since 1995	Nov 23, 2015	7,374,900 (1.6%)
<b>Brian Farrell</b> Edmonton, AB, Canada  Interim CFO / Director  Audit Committee Member (Chair)	CPA CA, Brian Farrell Professional Corporation	Mar 15, 20018	1,603,000 (0.35%)
<b>Lisa Capparelli</b> New York, USA  Director	Owner, LC Global Communications 2014 – present; Consultant, Revlon Global Marketing 2017-2018; L’Oreal USA, SVP/VP Integrated Marketing Communications 2004-2014	Jan 23, 2020	Nil
<b>Mark Baynes</b> Massachusetts, USA  Director	Global CMO Keurig Green Mountain 2014 – Aug 2016; Retired, Aug 2016 to present	Jan 23, 2020	Nil
<b>Caleb Zobrist</b> Las Vegas, NV, USA  Executive Vice-President	June 2019 to present, Executive VP and General Counsel for 1933 Industries; Oct 2018 to June 2019, In-House Counsel for 1933 Industries; Dec 2015 to Oct 2018, Managing Attorney for Ideal Business Partners; Feb 2015 to Dec 2015, Senior Attorney for Rahm & Associates; May 2013 to Feb 2015, Managing Attorney (Bankruptcy and Tax Department Head) for Truitt & Associates	N/A	2,200,000 (0.49%)
<b>Alexia Helgason</b> Vancouver, BC, Canada  Vice-President of Investor Relations	January 2020 to present, VP of Investor Relations of the Company. Director of Corporate Communications of the Company from March 2018 – January 2020. Manager, Marketing & Corporate Communications AgriMarine Holdings 2009-2017; Marketing Manager for TSXV 1995-2007	N/A	43,000

## **Board and Executive Officer Aggregate Ownership of Common Shares**

Our directors and executive officers, as a group, beneficially own, or control or direct, directly or indirectly, a total of 24,325,441 common shares, representing 5.4% of the total outstanding common shares as of the date of this AIF.

The following are brief profiles of the management of the Company, including a description of each individual's principal occupation within the past five years.

### ***Paul Rosen – Chief Executive Officer and Director***

Mr. Rosen has been involved with 1933 Industries in the capacities of strategic investor, advisor, CEO, director and most recently, as a Chairman of the Board, instituting a high level of stewardship and financial oversight that is guiding the Company into its next phase of development. Mr. Rosen has extensive experience in the cannabis industry as one of its earliest and most active entrepreneurs and company builders having co-founded and served as President and CEO of PharmaCan Capital Corp., later corporate rebranded to The Cronos Group (NASDAQ: CRON; TSX: CRON); as founder and former CEO and Chairman of Tidal Royalty Corporation (rebranded to Red, White and Bloom Brands Inc.); as a previous board member and Audit Committee Chair of iAnthus Capital Holdings (IAN.CN); and as a previous board member of Hill Street Beverages (BEER.VN) and High Tide Ventures (HITI.CN). Currently, Mr. Rosen is also the Executive Chairman of Global Go, a consultancy focused on the global regulated cannabis industry and is a co-founder and Chairman of The Pantry Company, a cannabis focused start up in the functional food market. Mr. Rosen is a member of the Law Society of Ontario, and previously practiced constitutional law.

### ***D. Richard Skeith – Director***

Mr. Skeith is a partner with the law firm of Dentons Canada LLP and previously with Norton Rose Fulbright Canada LLP (formerly Macleod Dixon LLP) in Calgary, Alberta since 1995. Mr. Skeith holds a Bachelor of Arts and a Bachelor of Laws from the University of Alberta. Mr. Skeith is a member of the Law Society of Alberta.

### ***Brian Farrell – Interim Chief Financial Officer and Director***

Mr. Farrell is a Chartered Accountant based in Edmonton, Alberta was a partner with a public accountancy firm for 35 years and has built a practice focusing on taxation, accounting, and providing financial advice to high-net-worth individuals. Mr. Farrell has also acted as the Chief Financial Officer to both a large privately held development company as well as three TSXV listed corporations. He has previously served as a director of Prize Mining Corporation, Mexican Silver Mines Ltd., Mindoro Resources Ltd., and Sonoro Energy Ltd., as well as serving on the board of several charitable organizations. Mr. Farrell is currently the Chair of the Jerry Forbes Centre for Community Spirit (a non-profit organization focused on providing affordable workspaces for Edmonton's non-profit organizations).

### ***Lisa Capparelli – Director***

Ms. Capparelli is a global marketing executive with deep expertise in creating 360 brand universes, award winning programs and driving business transformation within the beauty industry. Ms. Capparelli has successfully developed effective, innovative marketing and communication strategies for iconic beauty companies including Coty, L'Oréal and Revlon. She possesses a deep understanding of the power of paid, owned and earned media and has extensive experience in creating exclusive partnerships within the beauty and entertainment industries.

### ***Mark Baynes – Director***

Mr. Baynes is a senior marketing executive with over 30 years' bluechip experience in the CPG industry, having worked for Nestle, Kraft, Kellogg's, and Keurig. During his tenure at Kellogg's as Global Chief Marketing Officer, Mr. Baynes was responsible for the company's global brand agenda and overseeing the effectiveness of its marketing capability, brand investment and the execution of its consumer agenda. Mr. Baynes brings a wealth of experience in the areas of consumer, portfolio and brand strategy. As a member of the Kellogg's executive leadership team for over 7 years, Mr. Baynes was involved with and contributed to the overall leadership of the business. Mr. Baynes held senior positions within the Association of National Advertisers (ANA) and as a Board Member on the Ad Council.

### ***Caleb Zobrist – Executive Vice-President***

As Executive Vice President, Mr. Zobrist oversees the implementation of the Company's strategic plans to establish the Company as a reliable innovator in the cannabis space. As a proven leader, Mr. Zobrist is charged to direct all mid-level leadership to ensure stability and consistency throughout the organization, which will be crucial during the Company's current rapid growth. Mr. Zobrist has been a licensed attorney in Nevada since 2009, working on numerous mergers and acquisitions for private and public companies. He has represented cannabis companies in Nevada since the state's launch of its legal medical marijuana program in 2014 and joined the Company in 2018 as Vice President and General Counsel. Mr. Zobrist has led the Company in an operational capacity, identifying opportunities for growth and overseeing the Company's expansion initiatives.

### ***Alexia Helgason – Vice-President of Investor Relations***

Ms. Helgason is a marketing, corporate communications and investor relations professional with over 26 years' experience in corporate environments, working in a variety of business sectors. Ms. Helgason spent 12 years at TSX, TSXV and its predecessor Canadian exchanges, where she led marketing, business development, public relations and community engagement activities. Working with a number of publicly listed issuers, Ms. Helgason has extensive expertise in managing marketing and communications strategies, investor relations and media programs for TSX Venture, CSE and OTC traded issuers. Ms. Helgason leads the Company's Marketing and PR efforts as well as the Company's IR program.

## **Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Corporation, based upon information provided by the directors and executive officers, except as set out below, no director or executive officer of the Company is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company (including the Company), that:

- (a) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or
- (b) was subject to a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of the Corporation, based upon information provided by the directors and executive officers, except as set out below, no director or executive officer of neither the Company, nor a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

To the knowledge of the Corporation, based upon information provided by the directors and executive officers, no director or executive officer of the Company has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

### **Conflicts of Interest**

Certain officers and directors of the Company are also officers and/or directors of other entities engaged in the cannabis industry generally. As a result, situations may arise where the interest of such directors and officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors act honestly, in good faith and with a view to the best interests of the Company. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the BCBCA. The BCBCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the BCBCA.

### **PROMOTERS**

The Company has had no promoters in the last two completed financial years.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

As of the date of this AIF, except as described below, there are no legal proceedings material, and no contemplated legal proceedings known to be material, to the Company or its subsidiaries, to which the Company or its subsidiaries is a party or of which any of the Company or its subsidiaries' respective property is the subject matter.

On March 28, 2018, an arm's length third party commenced a claim against AMA seeking payment under an alleged joint venture arrangement between the parties for the extraction of cannabis oil and distillates by AMA from trim provided by the claimant for marketing and sale by the claimant under its own branding. AMA initiated a counterclaim as against the claimant for breaches of the alleged joint venture arrangement in failing, among other things, to properly market the products produced. This case is currently pending and at this time, it is premature to assess the potential merits of the claim and counterclaim and the value of any damages associated therewith.

On July 16, 2019, an arm's length third party commenced a claim against AMA seeking payment under a license and production agreement between the parties for the manufacture of cannabis concentrates by AMA with the claimant's branding. The case is proceeding through discovery and at this time, it is premature to assess the potential merits of the claim and any counterclaim and the value of any damages associated therewith.

On December 5, 2019, Infused commenced a claim against an arm's length third party marketing company Infused had hired to perform marketing services, seeking a refund of funds advanced for advertising and seeking damages for breach of contract. On December 23, 2020, Infused won an arbitration award in the amount of USD\$15,000. This case is currently in process of collection.

On October 30, 2020, Infused commenced a claim against Sacre Davey Engineering (SDE) for SDE's breach of an engineering contract for the design of Infused's hemp extraction facility in Nevada. Infused further seeks to invalidate an improperly filed lien by SDE on Infused's hemp extraction property. On or about May 17, 2021, the parties mutually agreed to settle all claims.

On June 4, 2021, a prior officer of the Company commenced a claim against the Company alleging wrongful termination and breach of contract. The Company filed its answer and counterclaims against the plaintiff for intentional interference with contract and for defamation. The case is proceeding through discovery and at this time, it is premature to assess the potential merits of the claim and any counterclaims, and the value of any damages associated therewith.

On October 22, 2018, AMA commenced a claim against a third-party cultivator seeking payment under a management agreement between the parties where AMA provided management services to the and defendant failed to pay AMA. On or about April 8, 2019, AMA obtained a default judgment against the defendant in the amount of USD\$204,000. The defendant motioned the court to set aside the default judgment on the grounds that service was improper. On or about June 10, 2019, the defendant's motion to set aside the default judgment was denied. On or about June 20, 2019, the defendant filed an appeal of the denial of its motion to set aside. On or about January 25, 2021, the Supreme Court of the State of Nevada affirmed AMA's judgment. AMA is currently proceeding with collection efforts to collect on its judgment.

As of the date of this AIF, none of the Company nor any of its subsidiaries has been subject to any penalties or sanctions imposed by any court or regulatory authority relating to provincial and territorial securities legislation or by a securities regulatory authority, within the three years immediately preceding the date hereof, nor has any party entered into a settlement agreement with a securities regulatory authority within the three years immediately preceding the date hereof, or been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that are necessary to provide full, true and plain disclosure of all material facts relating to the Company's securities or would be likely to be considered important to a reasonable investor making an investment decision.

## **AUDIT COMMITTEE**

Pursuant to section 224(1) of the *Business Corporations Act (British Columbia)*, the policies of the CSE and National Instrument 52-110 Audit Committees ("NI 52-110"), the Corporation is required to have an Audit Committee comprised of not less than three directors, a majority of whom are not officers, control persons or employees of the Corporation or an affiliate of the Corporation. NI 52-110 requires the Corporation, as a venture issuer, to make certain disclosure concerning the constitution of its Audit Committee and its relationship with its independent auditor. The Audit Committee Charter is attached to this AIF as Schedule "A".

### ***Composition of the Audit Committee***

The following are the members of the Committee:

Paul Rosen	Non-Independent <sup>(1)</sup>	Financially literate <sup>(1)</sup>
Brian Farrell	Non-Independent <sup>(1)</sup>	Financially literate <sup>(1)</sup>
Rick Skeith	Independent <sup>(1)</sup>	Financially literate <sup>(1)</sup>

1. As defined in NI 52-110.

### ***Relevant Education and Experience***

Paul Rosen is a successful entrepreneur and a pioneer in the global cannabis industry, having founded, led and invested in multiple companies over the past decade. He cofounded PharmaCan Capital Corp. (NASDAQ: CRON; TSX:CRON) and served as its first President and CEO. He has held board positions with a number of publicly-traded cannabis companies and currently serves as the Executive Chairman of Global Go, a consultancy focused on the global regulated cannabis industry. Mr. Rosen is also a significant shareholder in 1933 Industries, as a result of his private placement investment in the Company in March 2019.

Mr. Farrell is a Chartered Accountant based in Edmonton, Alberta was a partner with a public accountancy firm for 35 years and has built a practice focusing on taxation, accounting, and providing financial advice to high net worth individuals. Mr. Farrell has also acted as the Chief Financial Officer to both a large privately held development company as well as three TSXV listed corporations.

Mr. Skeith is a securities lawyer who has served on various audit committees and obtained financial experience and exposure to accounting and financial issues through his legal professional activities.

### ***Audit Committee Oversight***

At no time since the commencement of the Corporation's most-recent completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

### ***Reliance on Certain Exemptions***

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on the exemption in Section 2.4 of NI 52-110 (De Minimis Non-audit Services), or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110.



### ***External Auditor Service Fees (By Category)***

Aggregate fees paid to the Auditor during the financial years ended July 31, 2019 and 2018 were as follows:

<b>Financial Year Ended</b>	<b>Audit Fees</b>	<b>Audit Related Fees<sup>1</sup></b>	<b>Tax Fees<sup>2</sup></b>	<b>All Other Fees<sup>3</sup></b>
2020	\$248,745	\$Nil	\$122,516	\$Nil
2019	\$217,902	\$Nil	\$108,951	\$Nil

**Notes:**

1. Fees charged for assurance and related services reasonably related to the performance of an audit, and not included under "Audit Fees".
2. Fees charged (or estimated charges) for tax compliance, tax advice and tax planning services.
3. Fees for services other than disclosed in any other column.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as described herein, management of the Company is not aware of a material interest, direct or indirect, of any director or officer of the Company, any director or officer of a body corporate that is itself an insider of the Company, any proposed nominee for election as a director of the Company, any principal shareholder, or any associate or affiliate of any such person, in any transaction within the three most recently completed financial years or in any proposed transaction which has materially affected or would materially affect the Company.

### **TRANSFER AGENT AND REGISTRAR**

The Company's transfer agent and registrar is Odyssey Trust Company of Canada at its principal offices in Calgary, Alberta.

Odyssey Trust Company at its principal office in Vancouver, British Columbia, is also the warrant trustee and the debenture trustee for the warrant indenture and debenture indenture with respect to the Convertible Debentures and the Convertible Debenture Warrants maturing on September 14, 2021.

### **MATERIAL CONTRACTS**

The Company has not entered into any material contracts, other than contracts entered into in the ordinary course of business, within the past year or entered into before the most recently completed fiscal year that are still in effect.

### **INTEREST OF EXPERTS**

The auditor of the Corporation, MNP LLP, is independent with respect to the Corporation, in accordance with the Chartered Professional Accountants of British Columbia Code of Professional Conduct.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under the Company's stock option plans are contained in the Management Information Circular filed on SEDAR on October 18, 2021. Additional financial information is provided in the Company's Financial Statements and MD&A.

## SCHEDULE "A"

The Audit Committee (the "**Committee**") of the Board of Directors (the "**Board**") of 1933 Industries Inc. (the "**Corporation**") shall have the oversight responsibility, authority and specific duties as described below.

### *Composition*

The Committee will be comprised of two or more directors as determined by the Board. Each Committee member shall, to the extent possible, satisfy the independence, financial literacy and experience requirements of applicable securities laws and rules, any applicable stock exchange requirements and any other applicable regulatory rules. Determinations as to whether a particular director satisfies the requirements for membership on the Committee shall be made by the full Board.

Members of the Committee shall be appointed by the Board. Each member shall serve until his or her successor is appointed, unless he or she shall resign or be removed by the Board or he or she shall otherwise cease to be a director of the Corporation. The Board shall fill any vacancy if the membership of the Committee is less than two directors.

The Chair of the Committee may be designated by the Board or, if it does not do so, the members of the Committee may elect a Chair by vote of a majority of the full Committee membership.

### *Communication, Authority to Engage Advisors and Expenses*

The Committee shall have access to such officers and employees of the Corporation, the Corporation's external auditor and to such information respecting the Corporation, as it considers to be necessary or advisable in order to perform its duties and responsibilities.

The Committee provides an avenue for communication, particularly for outside directors, with the external auditor, on the one hand, and senior management and the Board, on the other hand. The external auditor shall have a direct line of communication to the Committee through its Chair and shall report directly to the Committee. The Committee, through its Chair, may contact directly any employee of the Corporation, and any employee may bring before the Committee, on a confidential basis, any matter involving the Corporation's financial practices or transactions.

The Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set the compensation for any such counsel and advisors. Any engagement of independent counsel or other advisors is to be at the Corporation's expense.

The Corporation shall be responsible for all expenses of the Committee that are deemed necessary or appropriate by the Committee in carrying out its duties.

## ***Meetings and Record Keeping***

Meetings of the Committee shall be conducted as follows:

1. the Committee shall meet at least four times annually at such times and at such locations as the Chair of the Committee shall determine, provided that meetings shall be scheduled so as to permit timely review of the quarterly and annual financial statements and reports. The external auditor or any two members of the Committee may also request a meeting of the Committee;
2. the quorum for meetings shall be a majority of the members of the Committee, present in person or by telephone or by other telecommunication device that permits all persons participating in the meeting to hear each other;
3. if the Chair of the Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present at the meeting shall be chosen by the Committee to preside at the meeting;
4. the Chair shall, in consultation with the President and Chief Executive Officer and management and in consultation with the auditor, establish the agenda for the meetings and instruct management to ensure that properly prepared agenda materials are circulated to the Committee;
5. every question at a Committee meeting shall, if necessary, be decided by a majority of the votes cast;
6. the President and Chief Executive Officer and the Chief Financial Officer shall be available to advise the Committee, shall receive notice of meetings and may attend meetings of the Committee at the invitation of the Chair of the Committee. Other management representatives may be invited to attend as necessary; and
7. the Corporate Secretary or, in the absence of the Corporate Secretary, a Committee member or any other person selected by the Committee, shall act as secretary for the purpose of recording the minutes of each meeting.

The Committee shall provide the Board with a summary of all meetings together with a copy of the minutes from such meetings. Where minutes have not yet been prepared, the Chair shall provide the Board with oral reports on the activities of the Committee. All information reviewed and discussed by the Committee at any meeting shall be referred to in the minutes and made available for examination by the Board upon request to the Chair.

## ***Responsibilities***

The Committee is part of the Board. Its primary functions are to assist the Board in fulfilling its oversight responsibilities with respect to: (i) the oversight, review and approval of the financial statements and the accounting and financial reporting processes of the Corporation; (ii) the assessment of the system of internal controls that management has established; and (iii) the external audit process. In addition, the Committee shall assist the Board, as requested, in fulfilling its oversight responsibilities with respect to (i) financial policies and strategies; (ii)

financial risk management practices; and (iii) transactions or circumstances which could materially affect the financial profile of the Corporation.

The Committee shall be directly responsible, in its capacity as a committee of the Board, for recommending the external auditor, approving the compensation and retention of the external auditor and overseeing the work of the external auditor and the relationship of the external auditor with the Corporation (including the resolution of disagreements between management and the external auditor regarding financial reporting).

The Committee should have a clear understanding with the independent auditor that they must maintain an open and transparent relationship with the Committee, and that the ultimate accountability of the independent auditor is to the shareholders of the Corporation.

### ***Specific Duties***

#### ***A. Relationship with External Auditor***

The Committee shall:

1. consider and make a recommendation to the Board as to the appointment or re-appointment of the external auditor;
2. consider and make a recommendation to the Board as to the compensation of the external auditor which is to be paid by the Corporation;
3. oversee the work of the external auditor in performing their audit or review services, and oversee the resolution of any disagreements between management of the Corporation and the external auditor;
4. review and discuss with the external auditor all significant relationships that the external auditor and its affiliates have with the Corporation and its affiliates in order to determine the external auditor's independence, including, without limitation:
  - (a) requesting, receiving and reviewing, on a periodic basis, a formal written statement from the external auditor delineating all relationships that may reasonably be thought to bear on the independence of the external auditor with respect to the Corporation;
  - (b) discussing with the external auditor any disclosed relationships or services that may impact the objectivity and independence of the external auditor; and
  - (c) recommending that the Board take appropriate action in response to the external auditor's report to satisfy itself of the external auditor's independence;
5. review and discuss the audit plan of the external auditor with the external auditor, including the staffing thereof, prior to the commencement of the audit;

6. as may be required by applicable securities laws, rules and guidelines, either:
  - (a) pre-approve all non-audit services to be provided by the external auditor to the Corporation (and its subsidiaries, if any), or, in the case of *de minimus* non-audit services, approve such non-audit services prior to the completion of the auditor
  - (b) adopt specific policies and procedures for the engagement of the external auditor for the purposes of the provision of non-audit services; and
7. review and approve the hiring policies of the Corporation regarding partners and employees and former partners and employees of the present and former external auditor of the Corporation.

**B. Financial Statements and Financial Reporting**

The Committee shall:

1. review with management and the external auditor, and recommend to the Board for approval, the annual financial statements of the Corporation and related financial reporting, including management's discussion and analysis and earnings press releases. In particular, the Committee's review of such financial statements should include, but not be limited to:
  - (a) reviewing changes in accounting principles, or in their application, which may have a material effect on the current or future years' financial statements;
  - (b) reviewing significant accruals, reserves or other estimates;
  - (c) reviewing the accounting treatment of unusual or non-recurring transactions; and
  - (d) reviewing disclosure requirements for commitments and contingencies;
2. upon completion of each audit, review with the external auditor the results of such audit. This process should include but not be limited to:
  - (a) reviewing the scope and quality of the audit work performed;
  - (b) reviewing the capability of the Corporation's financial personnel;
  - (c) reviewing the co-operation received from the Corporation's financial personnel during the audit;
  - (d) reviewing the internal resources used;
  - (e) reviewing significant transactions outside of the normal business of the Corporation; and

- (f) reviewing significant proposed adjustments and recommendations for improving internal accounting controls, accounting principles or management systems;
3. review with management, and recommend to the Board for approval, the interim financial statements of the Corporation and related financial reporting, including management's discussion and analysis and earnings press releases;
4. review with management and recommend to the Board for approval, any financial statements of the Corporation which have not previously been approved by the Board and which are to be included in a prospectus or other public disclosure document of the Corporation;
5. consider and be satisfied that adequate policies and procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements (other than public disclosure referred to in clauses B.1 and B.3 above), and periodically assess the adequacy of such procedures;
6. review with management, the external auditor and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements; and
7. review accounting, tax, legal and financial aspects of the operations of the Corporation as the Committee considers appropriate.

**C. Internal Controls**

The Committee shall review with management and the external auditor, the adequacy and effectiveness of the internal control and management information systems and procedures of the Corporation (with particular attention given to accounting, financial statements and financial reporting matters) and determine whether the Corporation is in compliance with applicable legal and regulatory requirements and with the Corporation's policies.

**D. Financial Risk Management**

The Committee may, if requested:

1. review the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to insurance, accounting, management reporting and risk management;
2. review with management and the external auditor their assessment of the significant financial risks and exposures of the Corporation and discuss with management the steps which the Corporation has taken to monitor and control such exposures;
3. review current and expected future compliance with covenants under any financing agreements;

4. review the activities of the Corporation's marketing group and the financial risks arising from such activities;
5. review the insurance program including coverage for such things as business interruption, general liabilities, and directors and officers liability;
6. review any other significant financial exposures including such things as tax audits, government audits or any other activities that expose the Corporation to the risk of a material financial loss;
7. report the results of such reviews to the Board for the purpose of assisting the Board in identifying the principal business risks associated with the businesses of the Corporation; and
8. review the appropriateness of the policies and procedures used in the preparation of the Corporation's financial statements and other required disclosure documents, and consider recommendations for any material change to such policies.

***E. Procedure For Complaints and Employee Submissions***

The Committee shall establish procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

***Approval***

This Audit Committee Terms of Reference has been approved and adopted by the Board effective March 14, 2008.