

**No securities regulatory authority has expressed an opinion about these securities, and it is an offence to claim otherwise.** This prospectus supplement, together with the short form base shelf prospectus dated November 17, 2022 to which it relates, as amended or supplemented, and each document incorporated or deemed to be incorporated by reference herein or therein, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. See "Plan of Distribution".

The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States of America, its territories, possessions or the District of Columbia (the "United States"), and may not be offered, sold or delivered to or for the account or benefit of, "U.S. Persons" (as such term is defined in Regulation S under the U.S. Securities Act) in the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. Neither this prospectus supplement, nor the short form base shelf prospectus dated September 21, 2023 to which it relates, and the documents incorporated or deemed to be incorporated by reference therein, constitutes an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this prospectus supplement and the accompanying short form base shelf prospectus dated November 17, 2022 from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of 1933 Industries Inc., #300 – 1055 West Hastings Street, Vancouver, British-Columbia, Canada, V6E 2E9, telephone (604) 728-4407, and are also available electronically at [www.sedarplus.ca](http://www.sedarplus.ca)

**PROSPECTUS SUPPLEMENT  
TO THE SHORT FORM BASE SHELF PROSPECTUS DATED NOVEMBER 17, 2022**

**New Issue**

**December 29, 2023**



**1933 INDUSTRIES INC.**

**\$3,114,000**

**3,114 Convertible Debentures**

No securities are being offered or sold pursuant to this non-offering prospectus supplement (this "**Prospectus Supplement**") as accompanied by the short form base shelf prospectus dated November 17, 2022 (the "**Base Shelf Prospectus**"), and as supplemented by this Prospectus Supplement, the "**Prospectus**"). 1933 Industries Inc. (the "**Corporation**") is hereby qualifying the distribution (the "**Distribution**") of up to \$3,114,000 in aggregate principal amount of unsecured convertible debentures (the "**Debentures**") at a price of \$1,000 per Debenture and the Conversion Shares (as defined below), the Conversion Warrants (as defined below) underlying the Debentures and the Warrant Shares (as defined below) underlying the Conversion Warrants. The Debentures will be issued to settle an aggregate amount of indebtedness in the amount of \$3,114,000 (the "**Outstanding Amount**") owing to certain debentureholders of the Corporation (the "**Creditors**") in connection with currently outstanding unsecured convertible debentures (the "**Historical Debentures**"). See "*Description of Securities Being Distributed*" and "*Plan of Distribution*".

The Debentures will be issued pursuant to an extraordinary resolution of the Creditors dated November 14, 2023 authorizing Odyssey Trust Company ("**Trustee**"), as the trustee under the trust indenture between the Corporation and the Trustee dated as of September 14, 2018, as amended by supplemental indenture No. 1 dated June 29, 2020, as amended by supplemental indenture no. 2 dated August 2, 2021, (collectively the "**Indenture**"), to effect

the exchange of the Historical Debentures for the Debentures (the “**Debt Settlement**”) and to execute a new trust indenture (the “**Trust Indenture**”) and a warrant indenture (the “**Warrant Indenture**”) and together with the Trust Indenture the “**Supplemental Indentures**”) as such other documentation as is necessary to give effect to the Debt Settlement. See “*Description of the Securities Being Distributed*”

**No additional Debentures are available for purchase pursuant to this Prospectus Supplement and no additional funds will be received by the Corporation for the distribution of the Debentures pursuant to the Debt Settlement as the Debentures are being issued to the Creditors in satisfaction of the Outstanding Amount. The Corporation reserves the right to repay Historical Debentures in accordance with their existing terms if held by Creditors residing in jurisdictions where the Debentures may not be distributed under this Prospectus Supplement.**

The terms of the Debentures were determined by the Corporation, with the approval of the Creditors, having regard for the prevailing market price of the Corporation’s common shares (each a “**Common Share**”) and the rules and policies of the CSE (as defined below). See “*Plan of Distribution*”.

The Debentures will be unsecured and will be issued in the principal amount of \$1,000 each, bearing interest at a rate of 10% per annum, payable upon maturity which shall be two years from the date the Debentures are issued (the “**Maturity Date**”). Further particulars of the attributes of the Debentures are set out below under “*Description of the Securities Being Distributed*”.

#### **Debenture Conversion Privilege**

The Debentures will be convertible at the option of the holder into Units (the “**Units**”) at any time prior to the Maturity Date at a conversion price of \$0.05 per Unit, subject to adjustment in certain events (the “**Conversion Price**”). Holders converting the Debentures will receive accrued and unpaid interest thereon for the period from and including the date of issuance, and including, the date of conversion.

The Corporation may force the conversion of the principal amount of the then outstanding Debentures (the “**Mandatory Conversion**”) at the Conversion Price on not less than 30 days’ notice should the daily volume weight average trading price of the Common Shares on the Canadian Securities Exchange be greater than \$0.07 for any 10 consecutive trading days, subject to the Mandatory Conversion being permitted under the policies of the principal exchange for any trading of the Common Shares at that time.

Each Unit will consist of one Common Share (each a “**Conversion Share**”) and one share purchase warrant (each a “**Conversion Warrant**”). Each Conversion Warrant will entitle the holder thereof to acquire one Common Share (each a “**Warrant Share**”) at a price of \$0.05 per Warrant Share, subject to adjustment in certain events, for a period of five years from the date of issuance of the Debentures, subject to certain accelerated expiry provisions.

The Debentures will be governed by the Trust Indenture to be entered into on the Closing Date (as defined herein) between the Corporation and the Trustee as debenture agent. **The Debentures are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that act or any other legislation.**

The issued and outstanding Common Shares are listed and posted for trading on the Canadian Securities Exchange (the “**CSE**”) under the symbol “TGIF” and on the OTCQB® Venture Market by OTC Markets Group (the “**OTCQB**”) under the symbol “TGIF”. On December 29, 2023, the last trading day prior to the date of the announcement of the Debt Settlement, the closing price per Common Share on the CSE was CDN\$0.015 and on the OTCQB was US\$0.011. On December 28, 2023, the last trading day prior to the date of this Prospectus Supplement, the closing price per Common Share on the CSE was CDN\$0.015 and on the OTCQB was US\$0.011.

The Corporation has provided notice to list on the CSE the Conversion Shares and the Warrant Shares. Listing is subject to the Corporation fulfilling all of the listing requirements of the CSE. See *"Plan of Distribution"*.

Closing of the Debt Settlement (the **"Closing"**) is expected to take place on or about December 31, 2023 or such other later date as the Corporation may determine. See *"Plan of Distribution"*.

**There is currently no market through which the Debentures and the Conversion Warrants may be sold and purchasers may not be able to resell the Debentures and the Conversion Warrants acquired under this Prospectus Supplement and the Prospectus. In addition, the Corporation does not intend to apply for listing of the Debentures or the Conversion Warrants on any securities exchange or other nationally recognized trading system. This may affect the pricing of the Debentures and the Conversion Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the Conversion Warrants and the extent of issuer regulation. See *"Risk Factors"*.**

**No underwriter, dealer or agent has been involved in the preparation of this Prospectus Supplement or performed any review of the contents of this Prospectus Supplement.**

**An investment in the securities distributed hereunder should only be undertaken by those persons who can afford the total loss of their investment. The Corporation's securities should be considered speculative due to various factors, including the nature of the Corporation's business. The risks outlined in this Prospectus Supplement, the Base Shelf Prospectus and in the documents incorporated by reference herein and therein should be carefully reviewed, considered and evaluated. See the *"Risk Factors"* in this Prospectus Supplement, the Base Shelf Prospectus and the documents incorporated by reference herein and therein, as well as the information under the heading *"Caution Regarding Forward-Looking Statements"*. Potential holders are advised to consult their own legal counsel and other professional advisors in order to assess tax, legal and other aspects of an investment in the Corporation.**

It is anticipated that the Debentures distributed under this Prospectus Supplement will be delivered in book-entry form or the non-certificated inventory system of CDS Clearing and Depository Services Inc. ("CDS"), or its nominee, and will be deposited in electronic form (subject to certain limited exceptions) on the Closing. Certificates representing the Debentures in registered and definitive form will be issued in certain limited circumstances. See *"Plan of Distribution"*.

Investors should rely only on current information contained in or incorporated by reference into this Prospectus Supplement and the accompanying Base Shelf Prospectus as such information is accurate only as of the date of the applicable document. The Corporation has not authorized anyone to provide investors with different information. Information contained on the Corporation's website shall not be deemed to be a part of this Prospectus Supplement or incorporated by reference and should not be relied upon by prospective investors for the purpose of determining whether to invest in the securities. The Corporation will not make an offer of the securities hereunder in any jurisdiction where the offer or sale is not permitted. Investors should not assume that the information contained in this Prospectus Supplement is accurate as of any date other than the date on the face page of this Prospectus Supplement or the date of any documents incorporated by reference herein. The Corporation does not undertake to update information contained or incorporated by reference in this Prospectus Supplement, except as required by applicable securities laws.

Certain legal matters relating to the Debt Settlement have been reviewed on behalf the Corporation by S. Paul Simpson Law Corporation of Vancouver, British Columbia.

**The earnings coverage ratio of the Corporation for the 12-month periods ended July 31, 2023 and July 31, 2022 is less than one-to-one. See *"Earnings Coverage Ratios"*.**

**Owning the Corporation's securities may subject you to tax consequences both in Canada and the United States. This Prospectus Supplement and the Prospectus does not describe these tax consequences fully. You should**

**read the tax discussion and other information in this Prospectus Supplement, the Base Shelf Prospectus and the information incorporated by reference herein and therein and consult your own tax advisor with respect to your own particular circumstances.**

For those directors and executives of the Corporation who reside outside of Canada, each has appointed Armstrong Simpson, located at 2080 – 777 Hornby Street, Vancouver, BC, Canada, V6Z 1S4, as his or her agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada or is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process. See "*Enforcement of Judgments Against Foreign Persons*".

The Corporation's head office is located at 3370 Pinks Place, Suite C, Las Vegas, 89102, United States, and the Corporation's registered and records office is located #300 – 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

**This Prospectus qualifies the distribution of securities of an entity that currently directly derives 100% of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. Federal Law. As at the date hereof, 100% of the Corporation's operations are in the United States. The Corporation is directly involved (through its subsidiaries) in both the adult-use and medical cannabis industry in the State of Nevada, as permitted under applicable state law which states have regulated such industries. In addition, the Corporation is indirectly involved in the hemp cannabidiol ("CBD") industry in the United States. All CBD infused products produced and sold by the Company are derived from hemp under the 2018 Farm Bill (as defined herein), as well as under the laws of the states in which the Company manufactures such products.**

**The cultivation, sale and use of cannabis is illegal under United States federal law pursuant to the Controlled Substance Act (21 U.S.C. §811) (the "CSA"). The United States federal government regulates drugs through the CSA, which places controlled substances, including cannabis, in a schedule. Other than industrial hemp, cannabis is classified as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. Under the CSA, the policies and regulations of the United States federal government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The United States Food and Drug Administration has approved Epidiolex, which is a CBD oral solution with an active ingredient derived from the cannabis plant for the treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome, in patients two years of age and older. This is the first drug approved by the U.S. Food and Drug Administration ("FDA") that contains a purified drug substance derived from the cannabis plant. In this case, the substance is CBD, a chemical component of marijuana that does not contain the intoxication properties of tetrahydrocannabinol ("THC"), the primary psychoactive component of marijuana.**

**Despite the current state of the federal law and the CSA, medical cannabis is currently legal in approximately 37 states and Washington D.C., Puerto Rico and Guam for patients with certain qualifying conditions. The States of Alaska, Arizona, California, Colorado, Connecticut, Illinois, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New Mexico, New York, Oregon, Vermont, Virginia, Washington, and the District of Columbia, have legalized recreational use of cannabis, although the District of Columbia has not legalized commercial sale of cannabis. This list includes states that have passed legislation to legalize recreational use of cannabis, but the laws have not yet gone into effect.**

**Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis, provided that there are strict limits on the levels of THC. However, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions.**

Accordingly, cannabis is largely regulated at the state level. State laws that permit and regulate the production, distribution and use of cannabis for adult-use or medical purposes are in direct conflict with the CSA. Although certain states authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On December 27, 2020, former President Donald Trump signed the Consolidated Appropriations Act of 2021, which included the Rohrabacher-Farr Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under state law. There can be no assurances that the Rohrabacher-Farr Amendment will be included in future appropriations bills or budget resolutions. At this time, there is still very little clarity as to how President Joseph Biden, or Attorney General Merrick Garland, will enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the current Presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with State laws. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed, amended or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. See "*United States Regulatory Environment*" for additional information.

The Corporation'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. Accordingly, there are a number of significant risks associated with the business of the Corporation. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current U.S. federal law, and the business of the Corporation may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Corporation's business, results of operations, financial condition and prospects would be materially adversely affected.

In light of the political and regulatory uncertainty surrounding the treatment of United States cannabis-related activities, on February 8, 2018, the Canadian Securities Administrators published CSA Staff Notice 51-352 – *(Revised) Issuers with U.S. Marijuana-Related Activities* ("Staff Notice 51-352") setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with United States cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the United States cannabis industry.

For these reasons, the Corporation's investments in the United States cannabis market may subject the Corporation to heightened scrutiny by regulators, stock exchanges, clearing agencies and other United States and Canadian authorities. There are a number of risks associated with the business of the Corporation. See sections entitled "*Risk Factors*" and "*United States Regulatory Environment*" in this Prospectus and in the AIF (as hereinafter defined).

In addition, over the past several years, the FDA has issued numerous warning letters to companies marketing CBD products with disease claims, rendering the products unapproved drugs according to FDA. The letters also reiterate the agency's position that CBD cannot be added to food and dietary supplements.

This matter is still in active discussion with the FDA and is unresolved as of the date of this Prospectus. While the Company disagrees with the position of the FDA, there is risk that this agency, or the FTC (as defined herein), could take law enforcement or regulatory actions against the Company.

If the Company's hemp related operations are found to be in violation of any of such laws or any other governmental regulations, the Company may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures, any of which would adversely affect the Company's business and financial results. If the FDA or the FTC takes action against the Company or the CBD industry, notwithstanding the regulatory regime surrounding the 2018 Farm Bill, this would have a material adverse effect on the Company's business, financial condition and results of operations including, potentially, the cessation of operations entirely. Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Company's suppliers, service providers, and distributors may elect, at any time, to breach or otherwise cease to participate in supply, service or distribution agreements, or other relationships, on which the Company's operations rely. Loss of its suppliers, service providers, or distributors would have a material adverse effect on the Company's business and operational results. See "*Risk Factors*".

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## NOTICE TO INVESTORS

This document is in two parts. The first part is this Prospectus Supplement, which describes the terms of the Debt Settlement and securities being issued thereunder and also adds to and updates information contained in the Base Shelf Prospectus and the documents incorporated by reference therein. The second part, the Base Shelf Prospectus, gives more general information, some of which may not apply to the Debt Settlement and the securities being distributed under this Prospectus Supplement. This Prospectus Supplement is deemed to be incorporated by reference into the Base Shelf Prospectus solely for the purpose of the Debt Settlement constituted by this Prospectus Supplement. Other documents are also incorporated, or are deemed to be incorporated by reference, into the Base Shelf Prospectus and reference should be made to the Base Shelf Prospectus for full particulars thereof.

Readers should rely only on the information contained in or incorporated by reference in this Prospectus Supplement and the Base Shelf Prospectus and should not rely on some parts of this Prospectus Supplement or Base Shelf Prospectus to the exclusion of others. To the extent that there is a conflict between the information contained in this Prospectus Supplement and the Base Shelf Prospectus, you should rely on the information in this Prospectus Supplement. The Corporation has not authorized any other person to provide you with additional or different information. This document may only be used where it is legal to offer the securities qualified hereby. If anyone provides you with additional, different or inconsistent information, including information or statements in articles about the Corporation or through other forms of media, readers should not rely on it. The Corporation is not distributing the securities in any jurisdiction in which the Debt Settlement is not permitted. You should assume that the information contained in this Prospectus Supplement or the Base Shelf Prospectus is accurate only as of the date on the front of those documents and that information contained in any document incorporated by reference herein or therein is accurate only as of the date of that document unless otherwise specified, regardless of the time of delivery of this Prospectus Supplement or of any distribution of the securities pursuant hereto. The Corporation's business, financial condition, results of operations and prospects may have changed since those dates.

Information contained in this Prospectus Supplement should not be construed as legal, tax or financial advice and readers are urged to consult their own professional advisors in connection therewith.

## MEANING OF CERTAIN REFERENCES AND CURRENCY PRESENTATION

References to dollars and "\$" or "US\$" are to United States dollars unless otherwise indicated. All references to "CDN\$" and "C\$" refer to Canadian dollars. On December 28, 2023, the daily exchange rate for the United States dollar in terms of Canadian dollars, as quoted by the Bank of Canada, was US\$0.7529= CDN\$1.00.

Unless the context otherwise requires, all references in this Prospectus Supplement to "1933", the "Corporation", the "Company" and "we", "us" and "our" refer to 1933 Industries Inc., its direct and indirect subsidiary entities on a consolidated basis, and other entities consolidated other than on the basis of ownership.

## MARKET AND INDUSTRY DATA

The Corporation has obtained the market and industry data and forecasts presented in this Prospectus Supplement (including the documents incorporated by reference herein) from third party information. There are limited sources that report on the Corporation's markets and industries. Actual outcomes may vary materially from those forecast in the reports or publications referred to herein, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While the Corporation believes third party information are reliable, the Corporation has not verified them, nor have they been verified by any independent sources and the Corporation has no assurance that the information contained in third party websites is current and up to date. While the Corporation is not aware of any misstatements regarding the market and industry data presented in this Prospectus Supplement (including the documents incorporated by reference herein), such data

involves risks and uncertainties and are subject to change based on various factors, including those factors discussed under "*Forward-Looking Statements*" and "*Risk Factors*".

#### **TRADEMARKS AND TRADENAMES**

This Prospectus Supplement and the documents incorporated herein by reference include references to the Corporation's trademarks, including, without limitation, the "1933 Industries" trademark on the face page of this Prospectus Supplement, which are protected under applicable intellectual property laws and are the Corporation's property. The Corporation's trademarks and trade names referred to in this Prospectus Supplement and the documents incorporated herein by reference may appear without the ® or ™ symbol, but references to the Corporation's trademarks and trade names in the absence of such symbols are not intended to indicate, in any way, that the Corporation will not assert, to the fullest extent under applicable law, its rights to these trademarks and trade names. All other trademarks and trade names used in this Prospectus Supplement or in documents incorporated herein by reference are the property of their respective owners.

#### **NON-IFRS AND OTHER MEASURES**

The Corporation prepares its financial statements in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee in effect as of and for the year ended July 31, 2023.

This Prospectus Supplement and the documents incorporated or deemed to be incorporated by reference herein may make reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of the Corporation's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Corporation's financial information reported under IFRS. The Corporation uses non-IFRS measures to provide investors with supplemental measures of the Corporation's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Corporation also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Corporation's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet future debt service, capital expenditure and working capital requirements, and in the determination of components of management compensation. Because other companies may calculate these non-IFRS measures differently than the Corporation does, these metrics are not comparable to similarly titled measures reported by other companies.

Certain calculations included in tables and other figures in this Prospectus Supplement and any tables and other figures in this Prospectus Supplement may have been rounded for clarity of presentation.

#### **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus Supplement and the documents incorporated by reference in this Prospectus Supplement contain "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities laws and United States securities laws. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Corporation. Forward-looking statements contained in certain documents incorporated by reference in this Prospectus Supplement are based on the key assumptions described in such documents. In addition, the Corporation may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Corporation that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of

historical fact, made by the Corporation that address activities, events or developments that the Corporation expects or anticipates will or may occur in the future are forward- looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words and includes, among others, information regarding: the completion of the Debt Settlement, including the anticipated date of Closing and receipt in a timely manner of all required regulatory approvals, the size of the Debt Settlement, including the Outstanding Amount to be settled; the plan of distribution for the Debt Settlement, expectations for the effects and potential benefits of any transactions, including the Debt Settlement; expectations for the effects of the pandemic of the novel coronavirus ("**COVID-19** ") on the business' operations and financial condition; statements relating to the business and future activities of, and developments related to, the Corporation after the date of this Prospectus Supplement, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Corporation's business, operations and plans; expectations that planned acquisitions will be completed; expectations that licenses applied for will be obtained; potential future legalization of adult-use and/or medical cannabis under U.S. federal law; expectations of market size and growth in the U.S. and the states in which the Corporation operates; expectations for other economic, business, regulatory and/or competitive factors related to the Corporation or the cannabis industry generally; the ability for U.S. holders of securities of the Corporation to sell them on the CSE; and other events or conditions that may occur in the future. Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations.

Readers are cautioned that forward-looking statements are not based on historical facts but instead are based on reasonable assumptions, estimates, analysis and opinions of management of the Corporation at the time they were provided or made, in light of its experience and its perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances, and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking information and statements are not a guarantee of future performance and are based upon a number of estimates and assumptions of management at the date the statements are made including, among other things, assumptions about: timely receipt of regulatory approvals for the Debt Settlement, development costs remaining consistent with budgets; the Corporation's ability to manage anticipated and unanticipated costs; favorable equity and debt capital markets; the Corporation's ability to raise sufficient capital to advance the business of the Corporation; favorable operating and economic conditions; political and regulatory stability; the Corporation's ability to implement its growth strategies and business plan obtaining and maintaining all required licenses and permits; sustained labor stability; stability in financial and capital goods markets; favourable production levels and costs from the Corporation's operations; the pricing of various cannabis products; the level of demand for cannabis products; the Corporation's ability to keep pace with changing consumer preferences; the availability of third party service providers and other inputs for the Corporation's operations; the Corporation's ability to successfully withstand the economic impact of the COVID-19 pandemic and the Corporation's ability to conduct operations in a safe, efficient and effective manner.

Risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information and statements include, but are not limited to, risks and uncertainties related to: business structure risks; legal and regulatory risks inherent in the cannabis industry; financing risks related to additional financing and restricted access to banking; general regulatory and legal risks including risk of civil asset forfeiture, anti-money laundering laws and regulations, lack of access to U.S. bankruptcy protections, heightened scrutiny by regulatory authorities; risk of legal, regulatory or political change, general regulatory and licensing risks, limitations on ownership of licenses, regulatory action and approvals from the Food and Drug Administration and risks of litigation; environmental risks including environmental regulation and

unknown environmental risks; general business risks including risks related to COVID-19 pandemic, failure to complete acquisitions, unproven business strategy, service providers, enforceability of contracts, resale of the Common Shares on the CSE, negative cash flow from operating activities, reliance on management, risks inherent in an agricultural business, unfavorable publicity or consumer perception, product liability, product recalls, results of future clinical research, difficulty attracting and retaining personnel, dependence on suppliers, reliance on inputs, limited market data and difficulty to forecast, intellectual property risks, constraints on marketing products, fraudulent or illegal activity by employees, contractors and consultants, information technology systems and cyber-attacks, security breaches, business disruptions or dislocations due to natural disasters, civil unrest, riots, acts of terrorism or otherwise, unionization of employees at the Corporation's facilities, reliance on management services agreements with subsidiaries and affiliates, website accessibility, high bonding and insurance coverage, risks of leverage, future acquisitions or dispositions, management of growth, performance not indicative of future results and financial projections may prove materially inaccurate or incorrect, conflict of interest; tax risks as well as those risk factors discussed under the heading "*Risk Factors*" and elsewhere in this Prospectus Supplement and the documents incorporated by reference herein and therein and as described from time to time in documents filed by the Corporation with Canadian securities regulatory authorities.

The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. In particular, but without limiting the foregoing, disclosure in this Prospectus Supplement and in the documents incorporated by reference herein as well as statements regarding the Corporation's objectives, plans and goals, including future operating results and economic performance may make reference to or involve forward-looking statements. Although the Corporation believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Further, the assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors that could cause actual performance, achievements, actions, events, results or conditions to be materially different from those projected in the forward-looking information and statements. Many assumptions are based on factors and events that are not within the control of the Corporation and there is no assurance they will prove to be correct. In particular, investors are cautioned that the Corporation's forward-looking statements are subject to the ongoing and developing circumstances related to the COVID-19 pandemic, which may have a material adverse effect on the Corporation's business, operations and future financial results. Certain of the forward-looking statements and other information contained herein concerning the cannabis industry, its medical, adult-use and hemp-based CBD markets, and the general expectations of the Corporation concerning the industry and the Corporation's business and operations are based on estimates prepared by the Corporation using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While the Corporation is not aware of any misstatement regarding any industry or government data presented herein, the cannabis industry involves risks and uncertainties that are subject to change based on various factors.

Readers are cautioned that the above list of cautionary statements is not exhaustive. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. You should not place undue reliance on forward-looking statements contained in this Prospectus Supplement. Such forward-looking statements are made as at the date of this Prospectus Supplement, or in the case of documents incorporated by reference herein, as at the date of each such document. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. The Corporation's forward-looking statements contained in this Prospectus Supplement and the documents incorporated by reference herein and therein are expressly qualified in their entirety by this cautionary statement. Participants in the Debt Settlement should read this entire Prospectus Supplement, the Base Shelf Prospectus, and the documents incorporated by reference herein, and consult their own professional advisors to ascertain and assess the tax and legal risks and other aspects associated with holding the Corporation's securities.

## ADDITIONAL INFORMATION

Copies of reports, statements and other information that the Corporation files with the applicable Canadian provincial and territorial securities regulatory authorities are available electronically on the System for Electronic Document Analysis and Retrieval ("SEDAR+") at [www.sedarplus.ca](http://www.sedarplus.ca) under the Corporation's profile.

## DOCUMENTS INCORPORATED BY REFERENCE

**This Prospectus Supplement is deemed to be incorporated by reference into the accompanying Base Shelf Prospectus solely for the purposes of the Debt Settlement. Other documents are also incorporated, or are deemed to be incorporated by reference, into the Base Shelf Prospectus and reference should be made to the Base Shelf Prospectus for full particulars thereof.**

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of the Corporation, at #300 – 1055 West Hastings Street, Vancouver, British-Columbia, Canada, V6E 2E9, (604) 728-4407, and are also available electronically on SEDAR+ under the Corporation's profile at [www.sedarplus.ca](http://www.sedarplus.ca). The Corporation's filings through SEDAR+ are not incorporated by reference in this Prospectus Supplement except as specifically set forth herein.

The following documents, filed by the Company with the securities commissions or similar authorities in certain of the provinces of Canada, are specifically incorporated by reference into and form an integral part of this Prospectus Supplement and the Prospectus, provided that such documents are not incorporated by reference to the extent that their contents are modified or superseded by a statement contained in this Prospectus Supplement, the Prospectus or in any other subsequently filed document that is also incorporated by reference in this Prospectus Supplement, as further described below:

1. the annual information form of the Corporation dated November 28, 2022, for the fiscal year ended July 31, 2023 (the "**AIF**"), filed on SEDAR on November 28, 2023;
2. the audited consolidated financial statements of the Corporation as at and for the years ended July 31, 2023, and 2022 together with the notes attached thereto and the independent auditor's report attached thereto, filed on SEDAR on November 28, 2023 (the "**Annual Financial Statements**");
3. the management's discussion and analysis of the financial conditions and results of operations of the Corporation for the fiscal year ended July 31, 2023, filed on SEDAR on November 28, 2023 (the "**Annual MD&A**");
4. the statement of executive compensation of the Corporation for the fiscal year ended July 31, 2023, filed on SEDAR on November 28, 2023;
5. the management information circular of the Corporation dated March 24, 2023, prepared in connection with the annual general and special meeting of the shareholders of the Corporation to be held on May 8, 2023, filed on SEDAR on April 6, 2023;
6. the management information circular of the Corporation dated October 16, 2023, prepared in connection with an extraordinary meeting of the holders of 10% Senior Unsecured Convertible Debentures due December 31, 2023, to be held on November 14, 2023, filed on SEDAR on October 25, 2023;
7. the amended material change report of the Corporation dated September 23, 2022, in connection with a senior line of credit of up to US\$1,000,000 provided to the Corporation by Paul Rosen;
8. the material change report dated October 4, 2022, and filed on SEDAR on October 4, 2022, in connection with the sale of a vacant property owned by the Corporation for gross proceeds of US\$2.65 million;

9. the material change report dated April 3, 2023 and filed on SEDAR on April 3, 2023, in connection with the appointment of Ester Vigil as President of the Corporation; and
10. the material change report dated June 21, 2023 and filed on SEDAR on June 21, 2023, in connection with appointment of Curtis Floyd to the board of directors of the Corporation following the resignation of Ranson Shepherd

Any documents of the type required by National Instrument 44-101 - *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any material change reports (excluding material change reports filed on a confidential basis), comparative interim financial statements, comparative annual financial statements and the auditors' report thereon, management's discussion and analysis, information circulars, annual information forms and business acquisition reports, filed by the Corporation with the securities commissions or similar authorities in certain of the provinces of Canada subsequent to the date of this Prospectus Supplement and prior to the completion or withdrawal of this distribution, shall be deemed to be incorporated by reference in this Prospectus Supplement.

Documents referenced in any of the documents incorporated by reference in this Prospectus Supplement but not expressly incorporated by reference therein or herein and not otherwise required to be incorporated by reference therein or in this Prospectus Supplement are not incorporated by reference in this Prospectus Supplement. Information on the Corporation's website does not constitute part of this Prospectus Supplement.

**Any statement contained in this Prospectus Supplement, the Base Shelf Prospectus or in a document incorporated or deemed to be incorporated by reference herein or therein shall be deemed to be modified or superseded for purposes of this Prospectus Supplement to the extent that a statement contained herein or in the Base Shelf Prospectus or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein or in the Base Shelf Prospectus, modifies or supersedes such prior statement. Any statement so modified or superseded shall not constitute a part of this Prospectus Supplement, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it is made.**

References to the Corporation's website in this Prospectus Supplement, the Base Shelf Prospectus, and any documents incorporated by reference herein or therein do not incorporate the information on such website into this Prospectus Supplement or the Base Shelf Prospectus, as applicable, and the Corporation explicitly disclaims any such incorporation by reference.

## THE CORPORATION

### Corporate Structure

1933 Industries Inc. was incorporated in Alberta as "LeBoldus Capital Inc." under the *Business Corporations Act* (Alberta) on January 29, 2008 and it completed its initial public offering on July 10, 2008 as a capital pool company. On October 14, 2010, the Corporation changed its name from "LeBoldus Capital Inc." to "Viper Gold Ltd". On February 17, 2015 the Corporation 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 Corporation 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 Corporation continued into British Columbia under the *Business Corporations Act* (British Columbia) and concurrently changed its name to 1933 Industries Inc.

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

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

### Intercorporate Relationships

The table below represents the corporate relationships and subsidiaries of the Corporation. 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, and (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 table below, each of the subsidiaries are wholly owned by 1933 Industries Inc.

<u>Subsidiaries</u>	<u>Percentage of Voting Securities Owned</u>	<u>Jurisdiction Where Organized</u>
FN Pharmaceuticals	100%	Nevada
Alternative Medicine Association LC	91%	Nevada
1933 Management Services Inc.	100%	Nevada
Infused MFG LLC	100%	Nevada
AMA Production LLC	100%	Nevada

## BUSINESS OF THE CORPORATION

### General

The Corporation 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 Corporation holds cultivation, extraction, processing, and manufacturing assets supporting its diversified portfolio of cannabis brands. FN Pharmaceuticals, AMA Production LLC, Alternative Medicine Association LC ("**AMA**"), 1933 Management Services Inc., Infused MFG LLC ("**Infused**") are subsidiaries of 1933 Industries Inc.

### Alternative Medicine Association

AMA is a licensed cannabis cultivator, extractor and product manufacturer. AMA's wholesale cannabis products include premium craft-style cannabis, infused pre-rolls, full spectrum oils, high quality distillates, proprietary blends of terpenes, vaporizer products and boutique concentrates such as shatter, crumble, batter, sugar wax, diamonds, and cured and live resins, sold under the AMA brand and the Corporation's premium brand, Level X. AMA cultivates its own cannabis plants and wholesales its products to regulated medical and adult-use dispensaries in the state. With an extensive selection of products, the AMA brand has strong penetration into dispensaries throughout Nevada, where it appeals to a wide range of both medical and recreational consumers. The AMA brand combines craft style cultivation, high quality and competitive pricing, while the Level X brand offers exclusive strains and premium quality. AMA also licenses other brands that contribute to the product offering and complement the AMA brand.

Cannabis flower is cultivated in the Corporation’s 67,000 square foot, purpose-built, state-of-the-art facility, serving the Las Vegas market. Biomass (remaining parts of the plant that contain THC such as sugar leaf trim and popcorn/small buds) is utilized to produce AMA’s extensive line of concentrates.

### **Infused MFG (Canna Hemp™)**

Infused develops proprietary formulations for its Canna Hemp™ line of CBD wellness products. It manufactures and distributes products under three distinct brands in a variety of verticals and consumption formats, including: tinctures, lotions, creams, vape pens and cartridges, gummies, and capsules. Infused distributes its branded products through wholesale and retail channels in Nevada and across the US via its e-commerce platform. With over 50 products in its portfolio, Canna Hemp™ delivers a wide range of high-quality product offerings in a variety of formats that meet the changing needs of consumers. High-grade CBD and a proprietary blend of cannabis terpenes formulated for specific effects are key differentiators for the Canna Hemp™ line. Infused expanded its product offerings to include other cannabinoids such as cannabigerol (CBG) and cannabiol (CBN) in its line of tinctures.

More detailed information regarding the business of the Corporation as well as its operations, assets, products and services, and properties can be found in the AIF and other documents incorporated by reference herein, as supplemented by the disclosure herein.

### **Business Objectives and Milestones**

The Corporation’s primary business objectives are fourfold: (i) to become the most popular and successful wholesale brand in the Nevada wholesale cannabis market, (ii) to continue to grow its Canna Hemp line of CBD wellness products into a top over-the-counter nutraceutical direct-to-customer brand, and (iii) to become profitable and cash flow positive, and (iv) to expand vertically in Nevada through entering into a business arrangement with a dispensary operator, and/or to pursue entry into new markets and opportunities for its current businesses. In order to achieve all of these goals, the Corporation has identified a number of significant events that must occur, as detailed in the table below:

<b>Description</b>	<b>Timeline</b>	<b>Estimated Cost to Complete</b>
Completing capital improvements to the Corporation’s existing cultivation facility to increase yields	Completed	\$500,000
Relocate its hemp CBD business from the currently leased premises to a Corporation owned building	Completed	\$35,000
Acquire a small dispensary operator or enter into a business combination with a multi-state operator seeking to add the Nevada market to its business or enter new markets through acquisition or merger	12 – 24 months	Up to ~\$35 million

See also “Use of Proceeds”.

## **RECENT DEVELOPMENTS**

### **Meetings of Debenture Holders**

As of November 14, 2023, the Corporation had \$3,269,000 aggregate principal amount of 10% senior unsecured convertible debentures outstanding (the “**Historical Debentures**”). The Historical Debentures bear interest 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 mature on December 31, 2023 (the "**Historical Maturity Date**"). The Historical 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 Historical Maturity Date; and (ii) the date fixed for redemption as more particularly defined in the Indenture, at a conversion price of \$0.10 per Common Share, subject to adjustment in certain events. Additionally, the Corporation may force the conversion of all of the principal amount of the then outstanding Historical 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 Historical Debentures are subject to redemption, in whole or in part, by the Corporation 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 Historical Debentures plus all accrued and unpaid interest up to and including the redemption date.

A meeting of both the holders of Historical Debentures was called to be held November 14, 2023.

At the meeting held November 14, 2023, the Corporation sought and received approval from the holders of Historical Debentures to approve the settlement of the Historical Debentures upon maturity and the principal debt owed thereunder, excluding any interest in arrears, through the issuance of:

- (a) a unit (each a "Unit"), each Unit being issued at a deemed price of \$0.02 per Unit, comprising one Common Share and one share purchase warrant exercisable into one additional Common Shares at a price of \$0.05) for a period of five years from the date of issuance, subject to certain acceleration provisions, with 50,000 Units being issued for each \$1,000 in principal value Historical Debentures held);
- (b) a new 10% unsecured convertible debenture (the "New Debenture") with a two year maturity, convertible into units at a price of \$0.05 per unit, each unit comprising one Common Share and one share purchase warrant exercisable into one additional Common Shares at a price of \$0.05 for a period of five years from the date of issuance of the New Debenture, subject to certain acceleration provisions as more particularly defined in the indenture governing warrants issuable upon conversion of the New Debenture;

The holders also authorized the board of directors of the Corporation, in their sole discretion, to determine which is the settlement options approved is in the best interest of the Corporation and to proceed with either option.

On December 28, 2023, the board of the Corporation determined to proceed with the Debt Settlement, and the distribution of the securities thereunder is the subject of this Prospectus Supplement.

## **Recent Transactions**

### ***Issuance of Securities***

On October 27, 2023, the Corporation announced the issuance of options to acquire 1,000,000 Common Shares to its directors, officers, consultants and employees pursuant to the Corporation's stock option plan. The options are exercisable for a period of five years at a price of \$0.05 per share.

## Licenses

All of the Corporation's licenses required in connection with its cultivation, production and distribution of cannabis are current, valid and in good standing with the applicable governing jurisdiction. The Corporation does not currently cultivate or produce any products for other third party brands through licenses or otherwise.

## CONSOLIDATED CAPITALIZATION

Other than as disclosed below and under the heading "Prior Sales", there have been no material changes to the share and loan capital of the Corporation since July 31, 2023, being the date of the Annual Financial Statements.

The following table sets out the share and loan capital of the Corporation as at the dates described. The table should be read in conjunction with the Annual Financial Statements and the Annual MD&A, which are incorporated by reference in this Prospectus Supplement, as well as the other disclosure contained in this Prospectus Supplement and the Base Shelf Prospectus, including the risk factors described under the heading "Risk Factors" in this Prospectus Supplement and in the AIF.

Designation of Security	As at July 31, 2023	As at the date of this Prospectus Supplement	Following completion of the Debt Settlement <sup>(4)</sup>
Common Shares <sup>(1)</sup>	461,233,870	465,559,657	491,439,657
Options <sup>(2)</sup>	24,540,000	22,790,000	22,790,000
Warrants	3,700,000	3,700,000	3,700,000
Debentures <sup>(3)</sup>	\$4,406,730	\$3,114,000	\$3,114,000

(1) As at July 31, 2023, the Corporation's statement of financial position had an equity deficit of (\$95,820,123).

(2) The number of stock options the Corporation may grant is limited by the terms of its stock option plan and the policies of the CSE.

(3) Comprised of \$3,260,007 in outstanding principal and \$1,146,723 in accrued and unpaid interest due in respect of the Historical Debentures. The Historical Debentures will be settled through the issuance of the Debentures as contemplated by the Debt Settlement.

(4) Does not assume any conversion of the Debentures into Conversion Shares and Conversion Warrants and assumes the distribution of the entire Outstanding Amount in Debentures. Includes the issuance of 25,880,000 Common Shares at a price of \$0.05 per share in settlement of accrued and unpaid interest on the Historical Debentures.

## USE OF PROCEEDS

### Proceeds

The Corporation will not receive any of the proceeds related to the distribution of the Debentures, as the Debentures are being issued to the Creditors in satisfaction of the Outstanding Amount. The Corporation expects the expenses in connection with the Debt Settlement to be approximately \$35,000 which will be paid from the Corporation's existing cash reserves. As of November 30, 2023, the Corporation's cash on hand was approximately \$343,565.

### Principal Purposes

In the absence of proceeds from the Debt Settlement, the Corporation will need to raise additional capital in order to meet its business objectives as described at "Business of the Corporation – Business Objectives and Milestones" as described above. The Corporation may seek funding from equity financing or credit facilities for the provision of

such capital. The ability of the Corporation to raise additional capital will depend, in part, upon the success of its existing operations and conditions in the capital markets at the time. An inability to raise additional will have an adverse effect on the Corporation's business and financial condition as well as its ability to further its intended business objectives.

### **Negative Operating Cash Flow**

The Corporation had negative cash flow from operations for the year ended July 31, 2023, and has a history of losses from operations since inception. The Corporation will need to generate and sustain increased revenue levels in future periods in order to become profitable, and, even if it does, the Corporation may not be able to maintain or increase its level of profitability. The Corporation cannot predict when it will reach positive operating cash flow, if ever, and will continue to require additional funding in order to fund continued operations and capital expenditures. Due to the expected continuation of negative operating cash flow, the Corporation anticipates capital raises will be used to fund activities that will contribute to negative cash flow in the near term. See "*Risk Factors – Negative Cash Flow from Operating Activities*".

## **PLAN OF DISTRIBUTION**

### **The Historical Debentures**

On September 14, 2018, the Company completed a short form prospectus offering of convertible debenture units (the "**Debenture Units**") raising an aggregate of \$17,250,000 through the issuance of an aggregate of 17,250 Debenture Units at a price per Debenture Unit of \$1,000. Each Debenture Unit consisted of: (i) one Historical Debenture in the principal amount of \$1,000 and (ii) 2,222 common share purchase warrants exercisable at a price of \$0.65 per Common Share expiring September 14, 2021. The Historical Debentures were originally convertible into Common Shares at a conversion price of \$0.45 per will be repaid in cash at maturity 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 were to mature on September 14, 2021. The Corporation could force the conversion of the principal amount of the then outstanding Historical Debentures at the conversion price on not less than 30 days' notice should the daily volume weighted average trading price of the Common Shares on the CSE be greater than \$0.70 for any 10 consecutive trading days. The Debenture Units were issued pursuant to a final short form prospectus dated August 30, 2018 filed with the securities regulatory authorities in British Columbia, Alberta, Saskatchewan and Ontario. The Historical Debentures were originally listed on the CSE.

On June 29, 2020, at a meeting held for that purpose, the holders of the Historical Debentures approved certain amendments to the Historical Debentures as follows: (i) the reduction of the conversion price from \$0.45 per share to \$0.10 per share, (ii) the reduction of the price at which the Corporation could require a forced conversion of the Historical Debentures from \$0.70 per share to \$0.15 per share, with any such conversion to be made at the amended conversion price in (i) above, (iii) the authorization of the Corporation to pay interest, at its discretion, through the issuance of Common Shares at a price of \$0.10 per share and (iv) the payment of interest on the Historical Debentures being amended from being paid semi-annually in arrears on the last day of June and December in each year to being payable at maturity of the Historical Debentures.

On August 6, 2021, at a meeting held for that purpose, the holders of the Historical Debentures approved the extension of the maturity date of the Historical Debentures from September 14, 2021 to September 14, 2022, as well as the delisting of the Historical Debentures from the CSE.

On August 24, 2022, at a meeting held for that purpose, the holders of the Historical Debentures approved further amendments to the Historical Debentures as follows: (i) the further reduction of the conversion price as well as the price at which the Corporation may pay interest in shares from \$0.10 per share to \$0.05 per share, (ii) the further reduction of the price at which the Corporation could require a forced conversion of the Historical Debentures from \$0.15 per share to \$0.05 per share, with any such conversion to be made at the amended conversion price in (i) above and (iii) the extension of the maturity date of the Historical Debentures from

September 14, 2022 to December 31, 2023. No further extensions of the maturity term on the Historical Debentures is permitted under the policies of the CSE.

As disclosed at “*Recent Developments*” above, at a meeting held on November 14, 2023, the holders of the Historical Debentures approved the settlement of the Historical Debentures via the issuance upon maturity and the principal debt owed thereunder, excluding any interest in arrears, through the issuance of:

- (a) a unit (each a “Unit”), each Unit being issued at a deemed price of \$0.02 per Unit, comprising one Common Share and one share purchase warrant exercisable into one additional Common Shares at a price of \$0.05) for a period of five years from the date of issuance, subject to certain acceleration provisions, with 50,000 Units being issued for each \$1,000 in principal value Historical Debentures held);
- (b) a new 10% unsecured convertible debenture (the “New Debenture”) with a two year maturity, convertible into units at a price of \$0.05 per unit, each unit comprising one Common Share and one share purchase warrant exercisable into one additional Common Shares at a price of \$0.05 for a period of five years from the date of issuance of the New Debenture, subject to certain acceleration provisions as more particularly defined in the indenture governing warrants issuable upon conversion of the New Debenture;

The holders also authorized the board of directors of the Corporation, in their sole discretion, to determine which is the settlement options approved is in the best interest of the Corporation and to proceed with either option.

On December 28, 2023, the board of the Corporation determined to proceed with the Debt Settlement, and the distribution of the securities thereunder is the subject of this Prospectus Supplement.

#### **Determination of Price**

The terms of the Debentures were determined by the Corporation, with the approval of the Creditors, as outlined above, having regard for the prevailing market price of the Corporation’s common shares (each a “**Common Share**”) and the rules and policies of the CSE.

#### **The Debt Settlement**

As of the date of this Prospectus Supplement, an aggregate of \$3,114,000 in principal amount of Historical Debentures remains outstanding, being the Outstanding Amount intended to be settled in the Debt Settlement.

All accrued and unpaid interest due in respect of the Historical Debentures will be paid in accordance with the terms of the existing Indenture governing the Historical Debentures at or immediately prior to the Debt Settlement.

The Debentures will be issued pursuant to an extraordinary resolution of the Creditors dated November 14, 2023, authorizing the Trustee, as the trustee under Indenture governing the Historical Debentures, to effect the exchange of the Historical Debentures for the Debentures and to execute the Supplemental Indentures as necessary to give effect to the Debt Settlement. See “*Description of the Securities Being Distributed*”.

**No additional Debentures are available for purchase pursuant to this Prospectus Supplement and no additional funds will be received by the Corporation for the distribution of the Debentures pursuant to the Debt Settlement as the Debentures are being issued to the Creditors in satisfaction of the Outstanding Amount.**

**The Corporation reserves the right to repay Historical Debentures in accordance with their existing terms if held by Creditors residing in jurisdictions where the Debentures may not be distributed under this Prospectus Supplement. As a result, it is possible that not all of the Outstanding Amount will be settled through the issuance of Debentures and a portion of the Historical Debentures may be repaid in cash.**

## **Listing**

The Corporation has provided notice to list on the CSE the Conversion Shares and the Warrant Shares. Listing is subject to the Corporation fulfilling all of the listing requirements of the CSE. See *"Plan of Distribution"*.

**There is currently no market through which the Debentures and the Conversion Warrants may be sold and purchasers may not be able to resell the Debentures and the Conversion Warrants acquired under this Prospectus Supplement and the Prospectus. In addition, the Corporation does not intend to apply for listing of the Debentures or the Conversion Warrants on any securities exchange or other nationally recognized trading system. This may affect the pricing of the Debentures and the Conversion Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures and the Conversion Warrants and the extent of issuer regulation. See *"Risk Factors"*.**

## **Closing**

Closing of the Debt Settlement (the **"Closing"**) is expected to take place on or about December 31, 2023 or such other later date as the Corporation may determine, as permitted under the terms of the Indenture.

The Corporation has set a record date of December 29, 2023 (the **"Record Date"**), being the last business date prior to the maturity of the Historical Debentures as the date on which registered holders of the Historical Debentures will be entitled receive the Debentures to which they are entitled pursuant to the Debt Settlement.

At the time of mailing this Prospectus, the Corporation is also sending a letter of transmittal (the **"Letter of Transmittal"**) to each registered Creditor. The Letter of Transmittal is for use by registered Creditors only and is not to be used by non-registered Creditors, which represents the majority of the holders of Historical Debentures. Non-registered holders of Historical Debentures should contact their broker or other intermediary for instructions and assistance in receiving the Debentures in respect of their Historical Debentures.

The Letter of Transmittal contains complete instructions with respect to the deposit of certificates representing Historical Debentures with the Trustee at its offices in Calgary, Alberta in order to receive certificates and/or DRS advices representing the Debentures to which they are entitled under the Debt Settlement. Registered Creditors should read and follow these instructions.

## ***Letter of Transmittal***

Registered holders of Historical Debentures are requested to tender to the Trustee any certificates representing their Historical Debentures along with the duly completed Letter of Transmittal. Within three (3) Business days of the receipt by the Trustee of an effective Letter of Transmittal, together with the certificate or certificates representing the Historical Debentures held by such Creditor, the certificates and/or DRS advices representing the Debentures to which the registered Creditor is entitled under the Debt Settlement, to be sent to or at the direction of such Creditor. Certificates and/or DRS advices representing the Debentures will be registered in such name or names as directed in the Letter of Transmittal, will be either (i) sent to the address or addresses as such Creditor directed in their Letter of Transmittal or (ii) made available for pick up at the offices of the Trustee in accordance with the instructions of the Creditor in the Letter of Transmittal.

Until surrendered, each certificate which immediately prior to the Record Date represented Historical Debentures will be deemed, at any time after the Historical Maturity Date, to represent only the right to receive upon such surrender the Historical Debentures to which the Creditor has the right to receive pursuant to the Debt Settlement.

If any certificate, which immediately before the Record Date represented one or more outstanding Historical Debentures is lost, stolen or destroyed, upon the making of an affidavit or statutory declaration of that fact by the holder claiming such certificate to be lost, stolen or destroyed, the Trustee will deliver in exchange for such lost,

stolen or destroyed certificate, certificates and/or DRS advices representing Debentures to which such registered Creditor is entitled pursuant to the Debt Settlement. When authorizing delivery of certificates and/or DRS advices representing Debentures that a Creditor is entitled to receive in exchange for any lost, stolen or destroyed certificate, such former holders to whom certificates are to be delivered will be required, as a condition precedent to the delivery thereof, to give a bond satisfactory to the Corporation and the Trustee in such amount as the Corporation and the Trustee may direct or otherwise indemnify the Corporation and the Trustee in a manner satisfactory to them, against any claim that may be made against one or both of them with respect to the certificate alleged to have been lost, stolen or destroyed.

A registered Creditor must deliver to the Trustee at the office listed in the Letter of Transmittal:

- (a) the certificates representing their Historical Debentures;
- (b) a Letter of Transmittal in the form accompanying this Prospectus, or a manually executed photocopy thereof, properly completed and duly executed as required by the instructions set out in the Letter of Transmittal; and
- (c) any other relevant documents required by the instructions set out in the Letter of Transmittal.

Except as otherwise instructed in the instructions to the Letter of Transmittal, the signature on the Letter of Transmittal need not be medallion guaranteed. If a Letter of Transmittal is executed by a person other than the registered holder of the certificate(s) deposited therewith, the certificate(s) must be endorsed or be accompanied by an appropriate share transfer power of attorney duly and properly completed by the registered holder, with the signature on the endorsement panel, or securities transfer power of attorney medallion guaranteed.

### ***Non-Certificated***

As the sole registered holder of the Historical Debentures in CDS, it is anticipated that the Debentures distributed under this Prospectus Supplement will be delivered in book-entry form or the non-certificated inventory system of CDS, and will be deposited in electronic form on the Closing. Certificates representing the Debentures in registered and definitive form will be issued in certain limited circumstances.

The Debt Settlement is being made only in those jurisdictions where the Debentures, including the Conversion Shares, Conversion Warrants and Warrant Shares issuable pursuant to the conversion of the Debentures may be lawfully distributed and therein only by persons permitted to distribute such securities. If a holder of Historical Debentures is resident in a jurisdiction where the Debentures may not be distributed, such holder's Historical Debentures are expected to be repaid in cash in accordance with their terms.

### **Distribution in the United States**

The Debentures, the Conversion Shares, the Conversion Warrants and the Warrant Shares have not been and will not be registered under the U.S. Securities Act or any U.S. state securities laws and, subject to registration under the U.S. Securities Act and applicable U.S. state securities laws or certain exemptions therefrom, may not be offered, sold, transferred, delivered or otherwise disposed of, directly or indirectly, to or for the account or benefit of, persons within the United States or a U.S. Persons.

The Conversion Warrants will not be exercisable by, or on behalf of, a person in the United States or a U.S. Person, nor will certificates representing the Warrant Shares issuable upon exercise of the Conversion Warrants, respectively, be registered or delivered to an address in the United States, unless an exemption from the registration requirements of the U.S. Securities Act and any applicable state securities laws is available at the time of exercise.

This Prospectus Supplement does not constitute an offer to sell or a solicitation of an offer to buy the Debentures to, or for the account or benefit of, persons in the United States or U.S. Persons.

The Debentures, the Conversion Shares and Conversion Warrants issuable upon conversion of the Debentures, and the Warrant Shares issuable upon exercise of the Conversion Warrants issued to, or for the account or benefit of, persons in the United States or U.S. Persons will be “restricted securities” within the meaning of Rule 144(a)(3) of the U.S. Securities Act. Any certificates representing such securities will bear a legend to the effect that the securities represented thereby are not registered under the U.S. Securities Act or any applicable state securities laws and may only be offered, sold, pledged or otherwise transferred other than pursuant to certain exemptions from the registration requirements of the U.S. Securities Act and any applicable state securities laws

Other than in each of the jurisdictions in which the Debentures are distributed, no action has been taken by the Corporation that would permit a public offering of the Debentures in any jurisdiction where action for that purpose is required. The Debentures may not be offered or sold, directly or indirectly, nor may this Prospectus Supplement or any other offering material or advertisements in connection with the offer and sale of any such Debentures be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this Prospectus Supplement comes are advised to inform themselves about and to observe any restrictions relating to the Debt Settlement, and the distribution of this Prospectus Supplement. This Prospectus Supplement does not constitute an offer to sell or a solicitation of an offer to buy any Debentures in any jurisdiction in which such an offer or a solicitation is unlawful

#### **EARNINGS COVERAGE RATIOS**

The following earnings coverages and adjusted earnings coverages are calculated on a consolidated basis for the years ended July 31, 2023 and July 31, 2022 and are derived from the audited financial statements of the Corporation for the years ended July 31, 2023 and 2022, incorporated by reference in this Prospectus Supplement.

The Corporation’s interest requirements amounted to \$1,720,004 (including debenture interest of \$359,179) for the year ended July 31, 2023, and \$1,749,132 (including debenture interest of \$366,207) for the year ended July 31, 2022. The Corporation’s losses before interest expense and income tax expense were \$10,668,966 for the year ended July 31, 2023, and \$15,222,542 for the year ended July 31, 2022, which is (6.2) times and (8.7) times, respectively, the Corporation’s interest requirements for these periods.

As the value of the Debentures is equivalent to the value of the Historical Debentures, the Corporation’s proforma interest requirements, after giving effect to the issue of the Debentures pursuant to the Debt Settlement (assuming the issuance of the such number of Debentures as is necessary to settle the Outstanding Amount) would be unchanged from that as described in the paragraph above.

The Corporation would have required additional earnings before interest expense and income tax of approximately \$10,688,966 for the year ended July 31, 2023, and \$15,222,429 for the year ended July 31, 2022, to achieve coverage ratios of one to one.

These coverage ratios reflect historical earnings adjusted for the net impact of interest on the Debentures, as noted. Under International Financial Reporting Standards as adopted by the Canadian Accounting Standards Board, a portion of the Debentures will be classified on the statement of financial position as a liability and a portion allocated to equity to reflect the conversion feature. For purposes of the pro forma calculations above, interest expense has been calculated using the effective interest method and also includes the amortization of debt issuance costs.

## DESCRIPTION OF THE SECURITIES BEING DISTRIBUTED

### The Debt Settlement

The Debt Settlement is expected to consist of the issuance of 3,114 Debentures at a price of \$1,000 per Debenture in order to settle the Outstanding Amount. If the Outstanding Amount has been reduced prior to the Closing as a result of holders exercising their conversion rights under the Historical Debentures, the number of Debentures will be reduced. A more detailed description of the terms of the Debentures is set forth below at "*Securities to be Distributed*" below. See also "*Plan of Distribution*" above.

### Authorized and Issued Share Capital

The Corporation's authorized share capital consists of an unlimited number of Common Shares without nominal or par value and an unlimited number of preferred shares issuable in series. As of the date of this Prospectus, 465,559,657 Common Shares were issued and outstanding and nil preferred shares were issued and outstanding of the Corporation.

### Common Shares

The following is a summary of the rights, privileges, restrictions and conditions attached to the Common Shares, but does not purport to be complete. Reference should be made to the articles of the Corporation and the full text of their provisions for a complete description thereof, which are available under the Corporation's profile on SEDAR+ at .

The holders of Common Shares are entitled to receive notice of any meeting of the shareholders of the Corporation and to attend and vote thereat, except those meetings at which only the holders shares of another class or of a particular series are entitled to vote. Each Common Share entitles its holder to one vote. The holders of Common Shares are entitled to receive on a pro-rata basis such dividends as the board of directors may declare out of funds legally available therefor. In the event of the dissolution, liquidation, winding-up or other distribution of the Corporation's assets, such holders are entitled to receive on a pro-rata basis all of assets of the Corporation remaining after payment of all of liabilities. The Common Shares carry no pre-emptive or conversion rights.

### Securities to be Distributed

The Debt Settlement consists of Debentures issuable at a price of \$1,000 per Debenture. The securities to be distributed pursuant to the Debt Settlement hereunder are qualified by this Prospectus Supplement.

The following is a summary of the material attributes and characteristics of the Debentures to be issued pursuant to the Debt Settlement. This summary is subject to, and qualified in its entirety by, reference to the terms of the Supplemental Indentures, which, following the Closing Date, may be viewed under the Corporation's profile on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).



## ***Debentures***

### ***General***

The Debentures will be issued pursuant to, and will be governed by, the Trust Indenture to be entered into between the Corporation and the Trustee as of the Closing Date. The Corporation will appoint the principal transfer offices of the Trustee in Vancouver, British Columbia as the location at which the Debentures may be surrendered for conversion, transfer or exchange.

Pursuant to the Debt Settlement, the Corporation will issue Debentures up to an aggregate principal amount of \$3,114,000 to settle the Outstanding Amount. The Corporation may, from time to time, without the consent of the holders of Debentures, issue additional debentures of a same or different series under the Trust Indenture, in addition to the Debentures distributed hereunder.

The Debentures will be dated and issued as of the Closing Date and will mature on the Maturity Date, being the date which is two years from date of issuance. The Debentures will be issuable only in denominations of \$1,000 and multiples thereof and will bear interest, payable, from and including the date of issue at 10% per annum, which will be payable either in cash or through the issuance of Common Shares at a price of \$0.05 per Common Share, at the discretion of the Corporation, on the Maturity Date. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months.

### ***Payment***

Payments of interest and principal on the Debentures will be made by the Corporation to the Trustee who will make such payments to CDS or its nominee, as the case may be, as the registered holder of the Debentures. As long as CDS is the registered holder of the Debentures, CDS or its nominee will be considered the sole legal owner of the Debentures for the purposes of receiving payments of interest and principal on the Debentures and for all other purposes under the Trust Indenture and the Debentures. The record date for the payment of interest will be five business days prior to the Maturity Date.

The Corporation also understands that payments of interest and principal by a member firm of CDS who participates in the book-based system (a "**Participant**") to owners of beneficial interest in such Debentures held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participants. The responsibility and liability of the Corporation in respect of payments on the Debentures is limited solely and exclusively to making payment of any interest and principal due on such Debenture to the Trustee. If a certificate evidencing the Debentures (a "**Debenture Certificate**") is issued instead of or in place of the Debentures, payments of interest on each Debenture Certificate will be made by cheque or share certificate dated the Maturity Date and mailed to the address of the holder appearing in the register maintained by the registrar on the Maturity Date.

### ***Conversion Privilege***

The Debentures will be convertible, at no additional consideration, at the option of the holder of the Debentures into Units any time prior to the close of business on the last business day immediately preceding the Maturity Date at the Conversion Price. Holders converting the Debentures will receive accrued and unpaid interest thereon to, and excluding, the date of conversion. The Conversion Price may be adjusted upon the occurrence of certain events, as outlined below. No fraction of a Unit will be issued upon conversion of the Debentures.

Each Unit will consist of one Conversion Share and Conversion Warrant. Each Conversion Warrant will entitle the holder thereof to acquire one Warrant Share at a price of \$0.05 per Warrant Share, subject to adjustment in certain events, for a period of five years from the date of issuance of the Debentures, subject to certain

accelerated expiry provisions. The Conversion Warrants will be governed by the Warrant Indenture as more particularly described below at "*Conversion Warrants*".

#### *Mandatory Conversion*

The Corporation may, provided that no Event of Default (as defined below) has occurred and is continuing, force the conversion of the principal amount of the then outstanding Debentures into Units at the Conversion Price on not less than 30 days' notice should the daily volume weighted average trading price of the Shares on the CSE be greater than \$0.07 for any 10 consecutive trading days.

#### *Conversion Adjustments*

The Trust Indenture will provide for the adjustment of the Conversion Price in certain events including, without limitation: (i) the subdivision or consolidation of the outstanding Common Shares; (ii) the issue of Common Shares or securities convertible into Common Shares by way of stock dividend or other distribution to all or substantially all holders of Common Shares; (iii) the issue of rights, options or warrants to all or substantially all of the holders of Common Shares entitling them to acquire Common Shares or other securities convertible into Common Shares in certain circumstances and (iv) the distribution to all or substantially all holders of Common Shares of any other class of shares, rights, options or warrants, evidences of indebtedness or assets.

No adjustment in the Conversion Price or the number of Units issuable upon the conversion of the Debentures will be required to be made unless the cumulative effect of such adjustment or adjustments would change the Conversion Price by at least 1% or the number of Units purchasable upon exercise by at least one one-hundredth of a Unit.

#### *Purchase*

Provided that no Event of Default has occurred and is continuing, the Corporation will be permitted to purchase for cancellation Debentures in the market, by tender or by private contract, subject to regulatory requirements.

#### *Payment Upon Maturity*

On the Maturity Date, the Corporation will repay the indebtedness represented by the Debentures then outstanding by paying to the Trustee in lawful money of Canada an amount equal to the aggregate principal amount of the outstanding Debentures which have matured, together with all accrued and unpaid interest thereon (with such interest being payable either in cash or through the issuance of Common Shares at the discretion of the Corporation), less any tax required by law to be deducted.

#### *Ranking*

The Debentures will be direct, unsecured obligations of the Corporation ranking pari passu in right of payment of principal and interest with all other current and future debt and other liabilities of the Corporation, effectively subordinated to all current and future secured debt and other liabilities of the Corporation to the extent that the assets securing such debt and other liabilities are senior to any future debt of the Corporation that is expressly subordinated to the Debentures.

#### *Events of Default*

It is expected that the Trust Indenture will provide, among other things, that any one or more of the following events shall constitute an event of default ("**Event of Default**") with respect to the Debentures thereunder: (i) default in payment of principal of (and premium, if any) on any Debentures when due, whether at maturity, upon redemption, by declaration or otherwise (whether such payment is due in cash, Units or other securities or property or a combination thereof); (ii) default in payment of interest on any Debentures when due and payable

and the continuance of any such default for ten (10) days; (iii) default in performing or observing any material covenant, condition, agreement or obligation of the Corporation and the continuance of such default for thirty (30) days after the date on which written notice of such default has been given to the Corporation by the Trustee or by the holders of Debentures holding not less than 25% in principal amount of the outstanding Debentures specifying such default and requiring the Corporation to rectify the same; (iv) certain events of bankruptcy, insolvency or reorganization of the Corporation under applicable bankruptcy or insolvency laws; (v) default in the delivery, when due, of all cash and any Units or other consideration payable on conversion with respect to the Debentures, which default continues for fifteen (15) days; (vi) a resolution is passed for the winding-up or liquidation of the Corporation or any material subsidiary or (vii) any proceedings with respect to the Corporation or any material subsidiary are taken with respect to a compromise or arrangement with respect to creditors of the Corporation or any material subsidiary generally, under the applicable legislation of any jurisdiction.

It is expected that the Trust Indenture will provide that if an Event of Default specified therein shall occur and be continuing with respect to a Debenture issued thereunder, then the Trustee may, in its discretion, and shall, upon request of the holders of Debentures holding not less than 25% in principal amount of outstanding Debentures, declare the principal of (and premium, if any) together with accrued interest on all Debentures to be due and payable immediately upon written notice to the Corporation. In certain cases, the holders of a majority of the principal amount of Debentures then outstanding may, on behalf of the holders of Debentures, waive any Event of Default and/or cancel any such declaration upon such terms as such holders shall prescribe.

No holders of Debentures will have any right to pursue any remedy (including any action, suit or proceeding authorized or permitted by the Trust Indenture or pursuant to applicable law) with respect to the Trust Indenture, the Debenture unless: (i) the holder of Debentures gives to the Trustee written notice of the happening of an event of default; (ii) the holders of Debentures by Extraordinary Resolution (defined in the Trust Indenture as a resolution passed by the favourable votes of the holders of not less than 66⅔% of the principal amount of the Debentures) or by written instrument signed by the holders of at least 25% in principal amount of the Debentures then outstanding shall have made a request to the Trustee and the Trustee shall have been afforded reasonable opportunity either itself to proceed to exercise the powers hereinbefore granted or to institute an action, suit or proceeding in its name for such purpose; (iii) the holders of Debentures or any of them shall have furnished to the Trustee, when so requested by the Trustee, sufficient funds and security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby; and (iv) the Trustee shall have failed to act within a reasonable time after such notification, request and offer of indemnity and such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to any such proceeding or for any other remedy hereunder by or on behalf of the holder of Debentures.

#### Cancellation

All Debentures converted, redeemed, repurchased or purchased as aforesaid will be cancelled by the Trustee forthwith and may not be reissued or resold.

#### Modification

The rights of the holders of Debentures as well as any other series of debentures that may be issued under the Trust Indenture may be modified in accordance with the terms of the Trust Indenture (and any supplements related thereto). For that purpose, among others, it is expected that the Trust Indenture will contain certain provisions which will make binding on all holders of Debentures any resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66⅔% of the principal amount of the Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66⅔% of the principal amount of the Debentures.

The Corporation and the Trustee may, without the consent or concurrence of the holders of Debentures under the Trust Indenture, by supplemental indenture or otherwise, make any changes or corrections in the Trust Indenture which they have been advised by counsel are required for the purpose of curing or correcting any ambiguity or

defective or inconsistent provisions or clerical omissions or mistakes or manifest errors contained therein or in any indenture supplemental thereto.

*Book Entry, Delivery and Form*

The Debentures will be issued in book-entry only form. CDS will act as securities depository for the Debentures. The Debentures will each be represented by one or more global certificates (the “**Global Debentures**”) or through the non-certificated inventory system of CDS unless the Corporation, in its sole discretion, elects to prepare and deliver definitive Debentures in fully registered form (the “**Definitive Debentures**”). The Global Debentures will be issued as fully-registered in book-entry only form in the name of CDS or its nominee, CDS & Co. The ownership interest of each actual holder of the applicable security, referred to as a “beneficial owner”, is to be recorded on the Participant’s records. Beneficial owners will not receive written confirmation from CDS of their holdings, but beneficial holders are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from a Participant through which the beneficial owner entered into the transaction.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below): (i) may not have Debentures registered in their name; (ii) may not have physical certificates representing their interest in the Debentures; (iii) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (iv) may be unable to pledge Debentures as security.

All interests in the Debentures will be subject to the operations and procedures of CDS.

The following is a summary of those operations and is provided by the Corporation solely for convenience. The operations and procedures of each settlement system may be changed at any time. The Corporation is not responsible for those operations and procedures and changes related thereto.

To facilitate subsequent transfers, all Debentures deposited by Participants are registered in the name of CDS. The deposit of Debentures with CDS and their registration in the name of CDS effect no change in beneficial ownership. CDS has no knowledge of the actual beneficial owners of the Debentures. CDS’s records reflect only the identity of the direct Participants to whose accounts such Debentures are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of ownership interests in the Debentures will be effected by entries made on the books of the Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the Debentures except in the event that use of the book-entry only system for the Debentures is discontinued or as in other exceptions or pursuant to applicable laws.

Conveyance of notices and other communications by CDS to direct participants, by direct participants to indirect Participants, and by Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

CDS will not consent or vote with respect to the Debentures. Under its usual procedures, CDS would mail an omnibus proxy to the Corporation as soon as possible after the record date. The omnibus proxy assigns CDS’s consent or voting rights to those direct participants to whose accounts the Debentures are credited on the record date (identified in a listing attached to the omnibus proxy).

The Corporation will make any payments on the Debentures to CDS. CDS’s practice is to credit direct Participants’ accounts on the payment date in accordance with their respective holdings shown on CDS’s records unless CDS has reason to believe that it will not receive payment on the payment date. Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name”, and will be the responsibility of such

participant and not of CDS or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Corporation will be responsible for the payment of all amounts due in respect of principal and interest to the Trustee to enable to the Trustee to forward or cause to be forwarded such funds to CDS. CDS will be responsible for the disbursement of those payments to its participants, and the participants will be responsible for disbursements of those payments to beneficial owners.

CDS may discontinue providing its service as securities depository with respect to the Debentures at any time by giving reasonable notice to the Corporation. If CDS discontinues providing its service as securities depository with respect to the Debentures and the Corporation is unable to obtain a successor securities depository, an investor will automatically take a position in the component securities and the Corporation will print and deliver Definitive Debentures.

Also, in the event that the Corporation decides to discontinue use of the system of book-entry only transfers through CDS (or a successor securities depository), the Corporation will print and deliver to the investor Definitive Debentures for the Debentures the investor may own.

The information in this section concerning CDS and CDS' book-entry only system has been obtained from sources that the Corporation believes to be reliable, including CDS, but the Corporation takes no responsibility for its accuracy. Neither the Company nor any trustee will have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to (i) the accuracy of the records of CDS, its nominee, or any Participant, any ownership interest in the securities; or (ii) any payments to, or the providing of notice, to Participants or beneficial owners.

#### Transfer and Exchange of Debentures

Transfers of beneficial ownership in Debentures represented by Global Debentures will be effected through records maintained by CDS for such Global Debentures or its nominee (with respect to interests of Participants) and on the records of Participants (with respect to interests of persons other than Participants).

Unless the Corporation elects, at its sole discretion, to prepare and deliver Definitive Debentures, beneficial owners who are not Participants in the book-entry systems of CDS, but who desire to purchase, sell or otherwise transfer ownership of or other interests in Global Debentures, may do so only through Participants in CDS's book-entry systems.

The ability of a beneficial owner of an interest in a Debenture represented by a Global Debenture to pledge the Debenture or otherwise take action with respect to such owner's interest in a Debenture represented by a Global Debenture (other than through a CDS Participant) may be limited due to the lack of a certificate.

If Definitive Debentures are issued instead of or in place of Global Debentures, registered holders of Definitive Debentures may transfer such Debentures upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Definitive Debentures to the registrar for the Debentures at its principal office in the City of Vancouver, Province of British Columbia, or such other city or cities as may from time to time be designated by the Corporation whereupon new Definitive Debentures will be issued in authorized denominations in the same aggregate principal amount as the Debentures so transferred, registered in the names of the transferees.

**There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures acquired under this Prospectus Supplement and the Prospectus. In addition, the Corporation does not intend to apply for listing of the Debentures on any securities exchange or other nationally recognized trading system. This may affect the pricing of the Debentures in the secondary market, the**

**transparency and availability of trading prices, the liquidity of the Debentures and the extent of issuer regulation. See "Risk Factors".**

### ***Units***

Each Unit will consist of one Conversion Share and one Conversion Warrant. The Units are immediately separable into the Conversion Shares and Conversion Warrants and the Conversion Shares and the Conversion Warrants will be issued separately.

### **Conversion Shares**

The Conversion Shares will bear the attributes set forth above at "*Common Shares*".

### **Conversion Warrants**

Each whole Conversion Warrant issued pursuant to the Debt Settlement will entitle the holder thereof to purchase one Warrant Share, subject to adjustment in certain circumstances, at a price of \$0.05 per Warrant Share, at any time at or prior to the close of business on the date that is five year from the date of the issuance of the Debentures, at which time the Conversion Warrants will become null and void. The exercise price for the Conversion Warrants will be payable in Canadian dollars.

The [Conversion] Warrants forming part of the Units will be issued pursuant to, and will be governed by the Warrant Indenture to be entered into between the Corporation and the Warrant Agent as of the Closing Date. The Corporation will appoint the principal transfer offices of the Warrant Agent in Vancouver, British Columbia as the location at which the Conversion Warrants may be surrendered for exercise, transfer or exchange.

The Conversion Warrants may be issued in uncertificated form. Any Conversion Warrants issued in certificate form shall be evidenced by a warrant certificate in the form attached to the Warrant Indenture. All Conversion Warrants issued in the name of CDS may be in either a certificated or uncertificated form, such uncertificated form being evidenced by a book-entry position on the register of warrant holders to be maintained by the Warrant Agent at its principal offices in Vancouver, British Columbia.

The Warrant Indenture will, among other things, include provisions for the appropriate adjustment in the class, number and price of the Warrant Shares to be issued upon exercise of the Conversion Warrants upon the occurrence of certain events, including any subdivision, consolidation or reclassification of the Common Shares, the payment of stock dividends and the amalgamation of the Corporation.

At any time following the date of issuance and from time to time until the expiry date, if the closing price of the Common Shares on the CSE is greater than \$0.10 for any 20 consecutive trading days, the Corporation shall have the option to accelerate the expiry date of the Conversion Warrants to a period of 30 days following the date on which notice of same is given by the Corporation to the warrant holders.

No adjustment in the exercise price or the number of Warrant Shares purchasable upon the exercise of the Conversion Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 1% or the number of Warrant Shares purchasable upon exercise by at least one one-hundredth of a Warrant Share.

The Corporation will also covenant in the Warrant Indenture that, during the period in which the Conversion Warrants are exercisable, the Corporation will give notice to holders of Conversion Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Conversion Warrants or the number of Warrant Shares issuable upon exercise of the Conversion Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such event.

No fractional Warrant Shares will be issuable upon the exercise of any Conversion Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Any subscription for fractional Warrant Shares will be deemed to be a subscription for the next smallest whole number of Warrant Shares. Holders of Conversion Warrants will not have any voting or pre-emptive rights or any other rights which a holder of Common Shares would have.

From time to time, the Corporation and the Warrant Agent, without the consent of the holders of Conversion Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Conversion Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Conversion Warrants may only be made by "extraordinary resolution", which will be defined in the Warrant Indenture as a resolution either:

- passed at a meeting of the holders of Conversion Warrants at which there are holders of Conversion Warrants present in person or represented by proxy representing at least 10% of the aggregate number of the then outstanding Conversion Warrants and passed by the affirmative vote of holders of Conversion Warrants representing not less than 66 2 /3% of the aggregate number of all the then outstanding Conversion Warrants represented at the meeting and voted on the poll upon such resolution; or
- adopted by an instrument in writing signed by the holders of Conversion Warrants representing not less than 66 2 /3% of the aggregate number of all the then outstanding Conversion Warrants.

The Conversion Warrants will not be exercisable by, or on behalf of a person in the United States or a U.S. Person, nor will any certificates representing the Warrant Shares, as applicable, issuable upon exercise of the Conversion Warrants be registered or delivered to an address in the United States, unless an exemption from registration under the U.S. Securities Act and any applicable state securities laws is available and documentation to that effect is provided in accordance with the terms of the Warrant Indenture.

**There is currently no market through which the Conversion Warrants may be sold and purchasers may not be able to resell the Conversion Warrants acquired under this Prospectus Supplement and the Prospectus. In addition, the Corporation does not intend to apply for listing of the Conversion Warrants on any securities exchange or other nationally recognized trading system. This may affect the pricing of the Conversion Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Conversion Warrants and the extent of issuer regulation. See "Risk Factors".**

#### PRIOR SALES

Other than as described below, during the 12-month period before the date of this Prospectus Supplement, the Corporation has not issued any other Common Shares or securities that are convertible or exchangeable into Common Shares.

Date of Issuance	Number of Securities Issued	Type of Securities Issued	Issue / Exercise Price (C\$)	Reason for Issuance
September 14, 2022	320,000	Common Shares	0.05	Conversion of Debenture
September 14, 2022	86,488	Common Shares	0.05	Settlement of Interest on Convertible Debenture
October 6, 2022	400,000	Common Shares	0.05	Conversion of Debenture
October 6, 2022	110,555	Common Shares	0.05	Settlement of Interest on Convertible Debenture
November 22, 2022	2,000,000	Common Shares	0.05	Conversion of Debenture
November 22, 2022	578,333	Common Shares	0.05	Settlement of Interest on Convertible Debenture

<b>Date of Issuance</b>	<b>Number of Securities Issued</b>	<b>Type of Securities Issued</b>	<b>Issue / Exercise Price (C\$)</b>	<b>Reason for Issuance</b>
February 13, 2023	320,000	Common Shares	0.05	Conversion of Debenture
February 13, 2023	99,733	Common Shares	0.05	Settlement of Interest on Convertible Debenture
February 14, 2023	2,000,000	Common Shares	0.05	Conversion of Debenture
February 14, 2023	623,888	Common Shares	0.05	Settlement of Interest on Convertible Debenture
March 9, 2023	1,000,000	Common Shares	0.05	Conversion of Debenture
March 9, 2023	318,888	Common Shares	0.05	Settlement of Interest on Convertible Debenture
May 19, 2023	2,000,000	Common Shares	0.05	Conversion of Debenture
May 19, 2023	676,666	Common Shares	0.05	Settlement of Interest on Convertible Debenture
September 14, 2022	320,000	Common Shares	0.05	Conversion of Debenture
September 14, 2022	86,488	Common Shares	0.05	Settlement of Interest on Convertible Debenture
September 14, 2022	320,000	Common Shares	0.05	Conversion of Debenture
September 14, 2022	86,488	Common Shares	0.05	Settlement of Interest on Convertible Debenture
October 27, 2023	1,000,000	Stock Options	0.05	Grant of Stock Options
November 9, 2023	80,000	Common Shares	0.05	Conversion of Debenture
November 9, 2023	30,844	Common Shares	0.05	Settlement of Interest on Convertible Debenture
November 23, 2023	600,000	Common Shares	0.05	Conversion of Debenture
November 23, 2023	233,666	Common Shares	0.05	Settlement of Interest on Convertible Debenture
December 21, 2023	2,420,000	Common Shares	0.05	Conversion of Debenture
December 21, 2023	961,277	Common Shares	0.05	Settlement of Interest on Convertible Debenture

### TRADING PRICE AND VOLUME

The Common Shares are currently listed on the CSE under the trading symbol "TGIF" and quoted on the OTCQB under the trading symbol "TGIF".

The following table sets forth information relating to the trading and quotation of the Common Shares on the CSE, for the 12-month period before the date of this Prospectus Supplement.

	<b>High (C\$)</b>	<b>Low (C\$)</b>	<b>Volume (#)</b>
December 2022 .....	0.025	0.02	1,518,088
January 2023 .....	0.03	0.015	4,026,211
February 2023 .....	0.025	0.015	4,076,616
March 2023 .....	0.02	0.015	1,080,418
April 2023 .....	0.02	0.015	923,851
May 2023.....	0.02	0.015	2,983,485
June, 2023 .....	0.02	0.01	1,487,746
July, 2023.....	0.015	0.01	3,002,853
August, 2023 .....	0.03	0.015	5,199,675
September, 2023.....	0.025	0.01	5,866,187



	High (C\$)	Low (C\$)	Volume (#)
October, 2023.....	0.02	0.01	3,348,699
November, 2023.....	0.02	0.01	2,981,969
December 1-28.....	0.02	0.01	4,291,412

On December 29, 2023, the last full trading day prior to the date of announcement of the Debt Settlement, the closing price of the Common Shares on the CSE was \$0.015. On December 28, 2023, the last full trading day prior to the date of this Prospectus Supplement, the closing price of the Common Shares on the CSE was \$0.015.

## UNITED STATES REGULATORY ENVIRONMENT

### 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 Corporation, through its subsidiaries, is currently directly involved.

In accordance with CSA Notice 51-352, the Corporation 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. Any non-compliance, citations or notices of violation which may have an impact on the Corporation’s licenses, business activities or operations will be promptly disclosed by the Corporation.

### Federal Regulatory Environment

#### *Overview of Federal Cannabis Law*

Under U.S. federal law, marijuana is currently a Schedule I drug. The CSA has five different tiers or schedules. A Schedule I drug means the Drug Enforcement Agency (“DEA”) considers it to have a high potential for abuse, no accepted medical treatment, and lack of accepted safety for the use of it even under medical supervision. Other Schedule I drugs are heroin, LSD, and ecstasy. The Company believes the CSA categorization as a Schedule I drug is not reflective of the medicinal properties of marijuana or the public perception thereof, and numerous studies show cannabis is not able to be abused in the same way as other Schedule I drugs, has medicinal properties, and can be safely administered. Additionally, while studies show cannabis is less harmful than alcohol,<sup>1</sup> alcohol is not classified under the CSA.

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

The U.S. federal position is also not necessarily consistent with democratic approval of marijuana at the state government level in the United States. Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale, and possession of marijuana under the *Cannabis Act* (Canada), marijuana is largely regulated at the state level in the United States. State laws regulating cannabis conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the U.S. authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts. Although the Corporation's activities are compliant with applicable state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve the Corporation of liability under U.S. federal law nor provide a defense to federal criminal charges that may be brought against the Company. The Supremacy Clause of the U.S. Constitution establishes that the U.S. Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and state law, federal law shall apply.

### ***U.S. Federal Approach to Enforcement of Cannabis Laws***

Nonetheless, well over half of the U.S. states have now legalized adult-use and/or medical marijuana. As more and more states legalized medical and/or adult-use marijuana, the federal government sought to provide guidance to enforcement agencies and banking institutions with the introduction of the DOJ Memorandum drafted by former Deputy Attorney General James Michael Cole in 2013 (the "**Cole Memo**") and the Department of the Treasury Financial Crimes Enforcement Network ("**FinCEN**") guidance in 2014.

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

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

Following the inauguration of President Donald Trump, a Task Force on Crime Reduction and Public Safety was established through an executive order by the President of the U.S. in February 2017. The Task Force was to

deliver its recommendations by July 27, 2017, however, instead U.S. Attorney General Jeff Sessions simply stated he would continue to review the recommendations.<sup>2</sup> To date, its recommendations have not been made public.

In March 2017, U.S. Attorney General Jeff Sessions acknowledged the validity of the Cole Memo and noted limited federal resources due to the appropriations restrictions.

However, in January 2018, U.S. Attorney General, Jeff Sessions, issued a memorandum (the “**Sessions Memo**”), which rescinded the Cole Memo and thereby created a vacuum of guidance for enforcement agencies and the DOJ. As an industry best practice, despite the recent rescission of the Cole Memo, the Corporation continues to do the following to ensure compliance with the guidance provided by the Cole Memo:

1. ensure the operations of its subsidiaries (or third parties, in the jurisdictions where the Corporation conducts its business as an ancillary services provider) are compliant with all licensing requirements that are set forth with regards to cannabis operation by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions. To this end, the Corporation retains appropriately experienced legal counsel to conduct the necessary due diligence to ensure compliance of such operations with all applicable regulations;
2. the activities relating to cannabis business adhere to the scope of the licensing obtained – for example, in the states where only medical cannabis is permitted, the products are only sold to patients who hold the necessary documentation to permit the possession of the cannabis; and in the states where cannabis is permitted for adult recreational use, the products are only sold to individuals who meet the requisite age requirements;
3. in working with licensed operators, such as cultivators and manufacturers in due diligence on the policies and procedures to ensure that the products are not distributed to minors. Additionally, The Corporation employs professional consultants to investigate any past license violations and ensure that the business has not been involved in these types of violations;
4. the Corporation only works through licensed operators, which must pass a range of requirements, adhere to strict business practice standards, and be subjected to strict regulatory oversight with sufficient checks and balances to ensure that no revenue is distributed to criminal enterprises, gangs, and cartels. Furthermore, as a part of its due diligence, The Corporation retains professional consultants to vet the ownership of such cannabis businesses to ensure that no profits or revenues are used for the benefit of criminal enterprises;
5. as a part of its compliance audit, the Corporation also ensures that the licensed operators have an adequate inventory tracking system and necessary procedures in place to ensure that such compliance system is effective in tracking inventory. This is done to ensure that there is no diversion of cannabis or cannabis products into the states where cannabis is not permitted by state law, or cross the state lines in general;
6. the Corporation conducts the necessary review of financial records and where appropriate retains professional third-party consultants to do so, to ensure that the state-authorized cannabis business activity is not used as a cover or pretext for trafficking of other illegal drugs or engaged in other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;

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<sup>2</sup> Press Release, U.S. Department of Justice, Statement by Attorney General Jeff Sessions on Recommendations From the Task Force on Crime Reduction and Public Safety (July 26, 2017), <https://www.justice.gov/opa/pr/statement-attorney-general-jeff-sessions-recommendations-task-force-crime-reduction-and>.

7. the Corporation conducts background checks to ensure that the principals and management of the licensed operators are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis;
8. the Corporation conducts reviews of activities of the cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of licensed premises (including the cases where such possession permitted by regulation – e.g., transfer of products between licensed premises). These activities are done to ensure that no licensed operators possess or use cannabis on federal property or engage in manufacturing or cultivation of cannabis on federal lands; and
9. the Corporation conducts reviews of products and product packaging to ensure that the products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Trump. Following Mr. Sessions' resignation, Matthew Whitaker began serving as Acting U.S. Attorney General. On February 14, 2018, President Trump's nominee William Barr was confirmed as the Attorney General. Mr. Barr served as Attorney General in the presidential administration of George H.W. Bush from 1991 to 1993. Mr. Barr has stated that as Attorney General, he does not intend to prosecute parties, who have complied with state law in reliance on the Cole Memo. Mr. Barr also stated the need for more legal growers of marijuana for research and is acknowledging that the bill legalizing hemp had broad implications for sale of cannabis products. Further, prior to Mr. Barr's confirmation, he stated that he had not considered or determined whether further administrative guidance would be appropriate, or what such guidance might look like. However, he did note that if confirmed, he would give the matter careful consideration (collectively the "**Barr Comments**").

Mr. Barr was seen as having a more hands-off approach on state regulation and enforcement on cannabis. Mr. Barr said low-level marijuana crimes would not be a focus of the Justice Department. On the other hand, he did launch investigations into legal cannabis companies on antitrust grounds.

While President Biden has not yet released clear direction on the federal path forward for federal legalization, his choices for Vice President Kamala Harris and Xavier Becerra for Secretary of Health and Human Services have public track records of supporting medical marijuana programs.

In January 2021, President Biden nominated Merrick Garland as Attorney General of the U.S. He was confirmed by the Senate in March 2021. In his confirmation testimony, Mr. Garland made clear that he would de-prioritize enforcement of low-level marijuana crimes such as possession, and he suggested that federal reforms are closely tied to the larger issue of social justice for minorities. Mr. Garland said it doesn't make much sense to him to spend "limited resources" pursuing nonviolent criminals such as those guilty of marijuana possession.

"This is a question of the prioritization of our resources and prosecutorial discretion," Garland said at his confirmation hearing on February 22, 2021. It does not seem to me a useful use of limited resources that we have, to be pursuing prosecutions in states that have legalized and that are regulating the use of marijuana, either medically or otherwise. I don't think that's a useful use."

"I do think we need to be sure there are no end-runs around the state laws that criminal enterprises are doing. So that kind of enforcement should be continued. But I don't think it's a good use of our resources, where states have already authorized. That only confuses people, obviously, within the state."

Mr. Garland reiterated the above sentiment during a May 4, 2021, House Appropriations subcommittee meeting, stating that “[t]he department’s view on marijuana use is that enforcement against use is not a good use of our resources” in states where such use is legal.

However, unlike in the case of the Sessions Memo or the Cole Memo that preceded it, the DOJ under Garland has not issued new guidance related to cannabis enforcement.

### ***Implications for Financial Institutions and Access by Third Parties***

Due to the CSA categorization of marijuana as a Schedule I drug, U.S. federal law makes it illegal for financial institutions that depend on the Federal Reserve’s money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses under the *United States Currency and Foreign Transactions Reporting Act of 1970* (the “**Bank Secrecy Act**”). 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 or conspiracy.

On January 16, 2018, a coalition of 19 attorney generals from various states, including: Ms. Lisa Madigan, Illinois Attorney General; Xavier Becerra, California Attorney General; Eric T. Schneiderman, New York Attorney General (who has since been replaced by Barbara Underwood); and Josh Shapiro, Pennsylvania Attorney General released a joint statement urging Congress to advance legislation that would allow states with legalized medical or recreational marijuana to participate in the banking system. Banks and other depository institutions are currently hindered by federal law from providing financial services to marijuana businesses, even in states where those businesses are regulated. In February 2019, the House Financial Services subcommittee took up proposed legislation, the *Secure and Fair Enforcement Banking Act of 2019* (the “**SAFE Banking Act**”), that would protect banks and their employees from punishment for providing services to cannabis businesses that are legal on a state level. First hearings for the SAFE Banking Act occurred in February 2019 and the bill was introduced in Congress in March 2019.

On September 25, 2019, the Secure and Fair Enforcement Banking Act of 2019 was passed by the U.S. House of Representatives in a 321 to 103 vote. The SAFE Banking Act would permanently protect state-chartered banks and credit unions that service state-legal cannabis companies from being penalized by federal regulators. On May 17, 2020, the legislative language of the SAFE Banking Act was included in a stimulus bill known as The Health and Economic Recovery Omnibus Emergency Solutions Act (the “**HEROES Act**”). The HEROES Act was passed by the U.S. House of Representatives in a 208 to 199 vote.

The SAFE Banking Act was reintroduced in the House (HR 1996) with 107 cosponsors. The bill was largely similar to what passed out of the House in 2020 and provides a SAFE Harbor to depository institutions who provide financial services to cannabis businesses. There were some minor changes to the bill related to the hemp provisions that provide hemp companies access to a full suite of financial protections, including those related to security exchanges, however, these provisions are currently limited to hemp. HR 1996 passed the House in April 2021. The SAFE Banking Act’s introduction in the Senate occurred on March 23, 2021, with bipartisan support led by Jeff Merkley of Oregon (D) and Steve Daines of Montana (R). However, the U.S. Senate has declined to bring the SAFE Banking Act up for a vote due to pending comprehensive federal reform legislation from Senate Majority Leader Chuck Schumer (D-NY), Senate Finance Committee Chair Ron Wyden (D-OR), and Senate Judiciary Criminal Justice and Counterterrorism Subcommittee Chair Cory Booker (D-NJ). The provisions of the SAFE Banking Act were offered by Congressman Earl Perlmutter (D-CO) as an amendment to the House version of the Defense Authorization Act (“**NDAA/H.R. 4350**”), which passed the House on September 23, 2021. The Senate’s version of the bill did not include the SAFE Banking Act and the compromised NDAA language also failed to include the SAFE Banking Act. Since then, on January 28, 2022, Rep. Ed Perlmutter (D-CO) filed an amendment to the America COMPETES Act, HR 4521, (“**COMPETES Act**”), which incorporated the SAFE Banking language into

the bill. The COMPETES Act relates to high-tech investment incentives and programs, directs funding to create a strategic transformer reserve, facilitate domestic manufacturing, and test critical electric grid equipment to reduce vulnerability and increase resiliency in the event of severe damage to the electrical grid. On February 1, 2022, Rep. Perlmutter's SAFE Banking Act amendment was considered by the House Rules Committee and included in the COMPETES Act. The COMPETES Act, with SAFE included, passed the House on February 4, 2022, the sixth time the House has passed the measure. Previously, the Senate passed its version of the bill, the U.S. Innovation and Competition Act, which did not include SAFE.

While there has been no change in U.S. federal banking laws to account for the trend towards legalizing medical and recreational marijuana by U.S. states, FinCEN has issued guidance advising prosecutors of money laundering and other financial crimes not to focus their enforcement efforts on banks and other financial institutions that serve marijuana-related businesses, so long as that business is legal in their state and none of the federal enforcement priorities are being violated (such as keeping marijuana away from children and out of the hands of organized crime). The FinCEN guidance also clarifies how financial institutions can provide services to marijuana-related businesses consistent with their Bank Secrecy Act obligations, including thorough customer due diligence, but makes it clear that they are doing so at their own risk.

The customer due diligence steps include:

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

Due to the fear by financial institutions of being implicated in or prosecuted for money laundering, marijuana businesses are often forced into becoming "cash-only" businesses. As banks and other financial institutions in the U.S. are generally unwilling to risk a potential violation of federal law without guaranteed immunity from prosecution, most refuse to provide any kind of services to marijuana businesses. Despite the attempt by FinCEN to legitimize marijuana banking, in practice its guidance has not made banks much more willing to provide services to marijuana businesses. This is because, as described above, the current law does not guarantee banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana business they take on as a customer. Recently, some

banks that have been servicing marijuana businesses have been closing accounts operated by marijuana businesses and are now refusing to open accounts for new marijuana businesses for the reasons enumerated above.

The few credit unions who have agreed to work with marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Since the federal government could change the banking laws as it relates to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also servicing the need of their other customers.

The U.S. Treasury Department has publicly stated they were not informed of Attorney General Jeff Sessions' desire to rescind the Cole Memo and do not have a desire to rescind the FinCEN guidance for financial institutions. Multiple legislators believe that Sessions' rescinding of the Cole Memo invites an opportunity for Congress to pass more definitive protections for marijuana businesses in states with legal marijuana programs during this Congress.

### ***Persistence of Mitigating Factors for Conflicting Federal and State Cannabis Law***

On December 20, 2014, President Obama signed into law a federal spending bill with a Congressional appropriation rider for the year ending September 30, 2015, providing that “None of the funds made available to the DOJ pursuant to the 2015 *Consolidated and Further Continuing Appropriations Act* may be used to prevent certain states, including Arizona, Nevada, and California, from implementing their own laws that have authorized the use, distribution, possession, or cultivation of medical marijuana” (the “**Rohrabacher-Blumenauer Amendment**”). This limitation was carried over for the year ending September 30, 2016. The DOJ addressed the impact of the Rohrabacher-Blumenauer Amendment in a memorandum dated February 27, 2015, which was released to the public in August 2015. That memorandum took the position that the Rohrabacher-Blumenauer Amendment does not bar the use of funds for civil and criminal enforcement “consistent with the existing DOJ guidance.” The DOJ’s interpretation appears to have been firmly rejected by the U.S. Court of Appeals for the Ninth Circuit (which includes federal court districts of Arizona and Nevada). In a decision dated August 16, 2016, the Court specifically ruled that the Rohrabacher-Blumenauer Amendment prohibited the use of DOJ funds for “conduct completely authorized by State law” *United States v McIntosh*, No.15-10117, 2016 WL 4363168, at 32 (9th Cir. Aug. 16, 2016). Both Congress and marijuana-related businesses recognize that guidance is not law and thus have worked to continually renew the Rohrabacher-Blumenauer Amendment since 2014. This amendment prevents the DOJ from using congressional funds to prosecute cannabis businesses in states that have medical marijuana laws and programs. In 2017, Senator Patrick Leahy (D-Vermont) introduced a similar amendment to H.R.1625 – a vehicle for the *Consolidated Appropriations Act* of 2018), preventing federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding, being the Leahy Amendment. The Leahy Amendment was set to expire with the 2018 fiscal year on September 30, 2018, but was effectively extended to December 21, 2018, when Congress passed the Continuing Appropriations Act, 2019 in September 2018. On December 22, 2018, the U.S. Congress failed to pass an omnibus appropriations bill for fiscal year 2019, causing a shutdown of the federal government. Currently, the Leahy Amendment is no longer in effect. Notwithstanding, since 2015, Congress has used a rider provision in the Consolidated Appropriations Acts (currently the Joyce Amendment, but previously called the Rohrabacher-Blumenauer Amendment, and before that the Rohrabacher-Farr Amendment) to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against state-compliant actors in jurisdictions that have legalized medical cannabis and cannabis-related activities. Additionally, the Blumenauer-McClintock- Norton-Lee amendment, which would bar the use of federal funds for the Department of Justice to prosecute those who are in compliance with their state-legal or tribal-legal adult-use marijuana laws was under consideration. However, the Blumenauer-McClintock-Norton-Lee amendment was not included in the appropriations bill that was passed by Congress on March 10, 2022, and signed by President Biden on March 15, 2022. The protections offered by the Joyce Amendment continue to be in effect.

The resolution of this issue could have a material adverse effect on the Corporation's business, revenues, operating results, and financial condition as well as the Corporation's reputation.

### ***Current Trends in Federal Cannabis Policy***

Since 2014, Congress has made immense strides in marijuana policy. The bipartisan Congressional Cannabis Caucus launched in 2017 and is co-chaired by Representatives Earl Blumenauer (OR-03) and Barbara Lee (D-CA). The group is "dedicated to developing policy reforms that bridge the gap between federal laws banning marijuana and the laws in an ever-growing number of states that have legalized it for medical or recreational purposes." Additionally, each year more Representatives and Senators sign on and co-sponsor marijuana legalization bills.

On November 20, 2019, the House Judiciary Committee approved the Marijuana Opportunity Reinvestment and Expungement Act of 2019 (the "**MORE Act**") by a 24 to 10 vote. The MORE Act would decriminalize and remove Cannabis as a Schedule I controlled substance. In April 2021, days before a floor vote in the U.S. House of Representatives, the MORE Act was stalled due a late added amendment. While the main thrust of the bill remained intact, including a tax to fund programs to repair the harms of the drug war, a provision was added requiring a federal permit to operate a "cannabis enterprise" along with restrictions that could ban people with prior marijuana convictions from being eligible. Advocates viewed the amendment as problematic as it allows for federal cannabis permits to be suspended or revoked if a person has a past or current legal proceeding related to a felony violation of any state or federal cannabis law. Following the Judiciary Committee approval in November, the MORE Act was passed by the House by a vote of 228-164 in December 2020. The bill did not advance in the Senate.

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

On July 14, 2021, Leader Schumer and Senators Wyden and Booker released the Cannabis Administration and Opportunity Act, a 163-page discussion draft bill, alongside a 30-page summary document, which effectively deschedules cannabis, provides restorative justice for past cannabis-related convictions, and establishes a federal regulatory system within the FDA for cannabis products. In addition to the aforementioned provisions, the bill also maintained state authority to establish individual cannabis policies and establishes a federal tax on cannabis products. Stakeholder comments were submitted to the Sponsoring Offices on or before the requested deadline of September 1, 2021. It is unclear when the bill will be filed.

The MORE Act was reintroduced by Representative Nadler (D-NY 10<sup>th</sup> Dist.) in May 2021. On September 30, 2021, the MORE Act passed the House Judiciary Committee by a vote of 26-15. Two Republicans joined all of the committee's Democratic members to move the bill forward. The next step was for the legislation to once again move to the House floor for consideration.

On November 15, 2021, Rep. Nancy Mace (R-SC) introduced the States Reform Act. The bill, if enacted, would legalize cannabis at the federal level by removing from the CSA and provide some deference to the states and state programs. The bill has yet to be put before the House for consideration.

On Friday, April 1, 2022, the U.S. House of Representative passed the latest iteration of the MORE Act. While passing with a vote of 220-204, the MORE Act is not viewed as having substantial bipartisan support, with only 3 Republican representatives backing the bill. To be passed into law the bill will need approval of the Senate. While its repeated adoption by Congress is seen as an encouraging sign, it is not expected to pass in its current iteration.



President Joe Biden issued a proclamation on October 6, 2022, granting pardon to all US citizens who, prior to the date of the proclamation, were charged or convicted of simple possession of marijuana in violation of the CSA. The pardon is only applicable to federal charges and not to any person who is or was incarcerated for breaking state law. However, President Biden did encourage state governors to follow his lead and issue pardons for simple possession of marijuana. President Biden also stated that he was directing the Attorney General and the Health and Human Services Secretary to initiate an administrative review of how marijuana is currently scheduled under federal law. While the scope of President Biden's pardon is limited, it brings the issue of federal decriminalization and legalization to the forefront of federal policy discussion.

On December 22, 2023, President Joe Biden expanded this proclamation with the issuance of an additional proclamation granting pardon to all US citizens and lawful permanent residents who, on or before the date of the proclamation, committed or were convicted of the offense of simple possession of marijuana, attempted simple possession of marijuana, or use of marijuana, regardless of whether they have been charged with or prosecuted for these offenses on or before the date of the proclamation. The pardon does not apply to individuals who were non-citizens not lawfully present in the United States at the time of their offense. The White House announced that thousands of people with federal and district convictions will be eligible for pardons. While this remains a limited-scope, it further brings federal decriminalization and legalization of marijuana to the forefront in the national policy discussion.

### ***Adverse Tax Implications***

An additional challenge to marijuana-related businesses is that the provisions of the Internal Revenue Code of 1986 as amended (the "**U.S. Tax Code**"), Section 280E, are being applied by the United States International Revenue Service ("**IRS**") to businesses operating in the medical and adult-use marijuana industry. Section 280E of the U.S. Tax Code prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective U.S. federal tax rates than similar companies in other industries. The effective tax rate on a marijuana business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they would otherwise be.

On December 20, 2018, Congress passed the Farm Bill, which became law in the U.S. and included the legalization of hemp, which changed how hemp and hemp-derived products like CBD are regulated in the U.S. The United States Department of Agriculture is the industry's primary regulator.

Local, state, and U.S. federal medical marijuana laws and regulations are broad in scope and subject to evolving interpretations, which could require the Corporation to incur substantial costs associated with compliance or alter certain aspects of its business plan. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Corporation's business plan and result in a material adverse effect on certain aspects of its planned operations. In addition, it is possible that regulations may be enacted in the future that will be directly applicable to certain aspects of the Corporation's business. No prediction can be made as to the nature of any future laws, regulations, interpretations, or applications, nor can it be determined what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

Unless and until Congress amends the CSA with respect to medical marijuana, as to the timing or scope of any such potential amendments there can be no assurance, there is a risk that U.S. federal authorities may enforce current U.S. federal law, and we may be deemed to be producing, cultivating, or dispensing marijuana in violation of U.S. federal law with respect to the Corporation's current or proposed business operations, or the Corporation may be deemed to be facilitating the sale or distribution of drug paraphernalia in violation of U.S. federal law. A change in the U.S. federal government's approach to begin more active enforcement of cannabis may adversely

affect our revenues and profits. The risk of strict enforcement of the CSA in light of Congressional activity, judicial holdings, and stated U.S. federal policy remains uncertain.

Laws and regulations affecting the medical marijuana industry are constantly changing, which could detrimentally affect the proposed operations of the Corporation. The risk of U.S. federal enforcement and other risks associated with the Corporation's business are described in the "Risk Factors" section of the Corporation's AIF, incorporated by reference herein.

### ***Overview of Federal CBD and Hemp Derived Regulations***

The Corporation sells its Canna Hemp™ line of CBD and other cannabinoid wellness products. While such products come from the same plant genus and species, hemp and marijuana are legally distinct and are generally regulated, respectively, by three separate overarching bodies of law: section 7606 of the *Agricultural Act of 2014* (the "**2014 Farm Bill**"); the *Agricultural Improvement Act of 2018* (the "**2018 Farm Bill**"); and the CSA. Hemp, by legal definition, contains 0.3% THC or less on a dry weight basis, which is not a sufficient level to create an intoxicating effect like marijuana.

All hemp-based products produced and sold by the Corporation constitute "Hemp" under the 2018 Farm Bill as well as under the laws of the states in which the Corporation manufactures such hemp-based products. The 2018 Farm Bill permanently removed hemp and the THC in Hemp from the purview of the CSA. Hemp is now deemed an agricultural commodity, and is no longer classified as a controlled substance, like marijuana. Furthermore, by defining hemp to include its derivatives, extracts, and cannabinoids,<sup>3</sup> Congress explicitly removed popular hemp products, such as hemp-derived CBD, from the purview of the CSA. Accordingly, the DEA no longer has regulatory authority to interfere with the interstate commerce of hemp products, so long as the THC level is at or below 0.3% on a dry weight basis. The 2018 Farm Bill also provides that state and Native American tribal governments may impose separate restrictions or requirements on hemp growth and the sale of hemp products. However, they cannot interfere with the interstate transportation or shipment of lawfully produced hemp or hemp products. As a result of the 2018 Farm Bill, federal law now provides that CBD derived from hemp is not a controlled substance under the CSA; however, CBD derived from hemp could still be considered a controlled substance under applicable state law. States take varying approaches to regulating the production and sale of hemp and hemp-derived CBD. While some states explicitly authorize and regulate the production and sale of hemp-derived CBD or otherwise provide legal protection for authorized individuals to engage in commercial hemp activities, other states maintain outdated drug laws that do not distinguish between marijuana and hemp and/or hemp-derived CBD, resulting in hemp being classified as a controlled substance under certain state laws. In these states, sale of CBD, notwithstanding origin, is either restricted to state medical or adult-use marijuana program licensees or remains otherwise unlawful under state criminal laws. Additionally, a number of states prohibit the sale of ingestible CBD products based on the FDA's position that, pursuant to the Food, Drug, and Cosmetic Act (the "**FD&C Act**"), it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, regardless of whether the substances are hemp-derived. See "*State by State Regulatory Environment*" below.

The Corporation obtains all its materials for its hemp-based products primarily from producers in Nevada, and has obtained some materials from Colorado. The Corporation's activities related to the production, marketing and sale of its products comply with the 2014 Farm Bill and/or 2018 Farm Bill, as currently applicable to its operations. However, certain government agencies (such as the FDA) and certain federal officials have challenged the scope of permissible commercial activity. FDA representatives, for example, have stated they believe that producers of CBD-based products, including the Company, produce and sell their products in violation of the FD&C Act. Similarly, the Corporation's marketing activities fall within the FDA's jurisdiction. In addition, the FDA is

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<sup>3</sup> Agriculture Improvement Act of 2018 (section 10113) (defining hemp under the Agricultural Marketing Act of 1946, 7. U.S.C. 1621).

currently evaluating whether, and how, hemp-based CBD dietary supplements and food can be lawfully sold in the U.S. Over the past several years, FDA has issued numerous warning letters to companies marketing CBD products with disease claims. The letters reiterate the agency's position that CBD cannot be added to food and dietary supplements and targeted companies whose products violated the FD&C Act's prohibition against: i) marketing CBD as or in a dietary supplement, human and animal food, or food additives; ii) marketing a dietary supplement, human and animal food, or cosmetic with disease or drug claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent disease); iii) including a substance in human or animal food when that substance is not generally recognized as safe ("**GRAS**"); and iv) selling products that are misbranded due to their failure to include "adequate directions for use by a layperson".

The FDA's enforcement against the sale and marketing of CBD products has to date been limited to the issuance of warning letters, although enforcement could include civil and criminal penalties. This matter is still unresolved as at the date of this Prospectus Supplement, as indicated by the FDA's March 5, 2020, statement and Congressional report whereby the agency reaffirmed that it is actively evaluating a risk-based enforcement policy and rulemaking to permit the use of CBD in dietary supplements. While the Corporation disagrees with the position of the FDA, there is risk that this agency could take enforcement or regulatory actions against the Corporation.

Legal barriers applicable to, and risks associated with, selling hemp-derived CBD products result from a number of factors, including the fact that hemp and marijuana are both derived from the *Cannabis sativa L.* plant, the rapidly changing patchwork of state laws governing hemp and hemp-derived CBD, and the FDA's position that it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, i.e. the IND Preclusion described below (see "*FDA Regulation*" below). However, the removal of hemp and its extracts, including CBD, from the CSA pursuant to the 2018 Farm Bill, and the FDA's indication that it is considering using its authority to issue a regulation that could specifically allow hemp-derived ingredients in foods and supplements, are major developments toward resolving these regulatory barriers. Stakeholders take different positions regarding the scope of legal activity in light of the interplay of federal and state law, and in light of developments, such as the 2018 Farm Bill, the September 30, 2017, decision of the World Anti-Doping Agency to drop CBD from its list of prohibited substances, and the World Health Organization Expert Committee on Drug Dependence preliminary report finding that CBD is safe, well-tolerated and non-addictive.<sup>4</sup>

On May 28, 2020, the FDA submitted draft guidance to the White House Office of Management and Budget relating to research considerations for cannabis and cannabis-derived compounds. While we do not believe this guidance changes the regulatory landscape, we do believe it indicates the FDA's continued direction in considering the safety and advancement of cannabis-derived compounds. In a trade press article regarding this guidance, FDA confirmed that it is "working toward a goal of providing additional guidance and [has] made substantial progress," while also reiterating the need to obtain additional data on the safety, effectiveness, and quality of CBD products.<sup>5</sup> At the request of the Biden Administration, the FDA has since withdrawn its draft guidance. The FDA has not yet indicated whether or when a new guidance document will be submitted.

The foregoing is an abbreviated overview of the Corporation's position on the legality of the Corporation's operations in the United States. Additional background and a more thorough analysis of applicable U.S. regulatory regimes is set out in greater detail below. The varying regulations with respect to the treatment of Hemp from state to state continue to evolve.

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<sup>4</sup> World Health Organization Expert Committee on Drug Dependence, Cannabidiol (CBD) Pre-Review Report, November 10, 2017.

<sup>5</sup> <https://www.foodnavigator-usa.com/Article/2020/06/05/FDA-says-it-s-made-substantial-progress-on-CBD-regs-CV-Sciences-weighs-in-on-food-vs-pharma-path-man-sues-CBD-firm-after-failing-drugs-test>.

## FDA Regulation

FDA regulations are complex and constantly evolving. The description below provides a current summary of certain FDA regulations that purport to regulate various aspects of products that are intended for human or animal consumption.

### *Overview*

The governing food and drug law in the United States is the FD&C Act. One purpose of the FD&C Act is to forbid the movement in interstate commerce of adulterated and misbranded food, drugs, devices and cosmetics.<sup>6</sup> The FDA is charged with protecting the integrity of the U.S. food supply and its cosmetic products, as well as monitoring the safety and efficacy of drugs, biological products, and almost any compound intended for human or animal consumption, among other areas.<sup>7</sup>

To date, the FDA has approved one product containing CBD as a drug, and has taken the position that CBD cannot be marketed as a dietary supplement or added to food because a product containing CBD was approved as a drug and substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD. Accordingly, dietary supplements or food are precluded from containing CBD as an ingredient. This potentially creates additional barriers to lawfully selling certain CBD and CBD-based products in the U.S.

Notably, the FDA does not impose the same restrictions on the use of CBD in cosmetic products. The agency states on its website that "[c]ertain cosmetic ingredients are prohibited or restricted by regulation, but currently that is not the case for any cannabis or cannabis-derived ingredients."<sup>8</sup> However the FDA further notes that such products must comply with all applicable legal requirements including the adulteration and misbranding provisions of the FD&C Act specific to cosmetic products.

Further, the Dietary Supplement Health and Education Act (the "**DSHEA**"), an amendment to the federal FD&C Act, established a framework governing the composition, safety, labeling, manufacturing and marketing of dietary supplements in the United States. Generally, under DSHEA, dietary ingredients marketed in the United States prior to October 15, 1994, may be used in dietary supplements without notifying the FDA. "New" dietary ingredients (i.e. dietary ingredients "not marketed in the United States before October 15, 1994") must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been "present in the food supply as an article used for food" and is not "chemically altered." Any new dietary ingredient notification must provide the FDA with evidence of a "history of use or other evidence of safety" establishing that use of the dietary ingredient "will reasonably be expected to be safe."

To legally market an over-the-counter (OTC) drug product, the FD&C Act and FDA regulations promulgated under its authority require FDA approval of a New Drug Application ("**NDA**") that includes substantial evidence of effectiveness based on adequate and well-controlled studies, or an Abbreviated New Drug Application ("**ANDA**"). Alternatively, an OTC drug product may be marketed without an FDA approved NDA or ANDA if the drug product is manufactured in compliance with an OTC drug regulation, referred to as a monograph, which has been established for that therapeutic class of drug. The OTC drug monographs identify permissible active ingredients, labeling, and claims. OTC monographs generally do not specify inactive ingredients that may be used in the manufacture of OTC drugs. OTC drugs marketed in compliance with a final monograph are generally recognized and safe and effective ("**GRASE**"), and are exempt from premarket approval requirements.

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<sup>6</sup> Ky. Rev. Stat. §§ 260.850-.858.

<sup>7</sup> U.S. Food and Drug Administration, Mission Statement: <http://www.fda.gov/downloads/aboutfda/reportsmanualsforms/reports/budgetreports/ucm298331.pdf>.

<sup>8</sup> U.S. Food and Drug Administration, "FDA Regulation of Cannabis and Cannabis-Derived Products, Including Cannabidiol (CBD), Questions and Answers," <https://www.fda.gov/news-events/public-health-focus/fda-regulation-cannabis-and-cannabis-derived-products-including-cannabidiol-cbd#qandas>.

The FDA has also issued "tentative final monographs," which are proposed rules that, when finalized, will become final monographs. The FDA allows drugs that comply with the tentative final monograph to be marketed under its enforcement discretion policy. Once the monograph is finalized for that therapeutic class of drug, marketing must then conform to the final monograph or the OTC drug products will be considered adulterated or misbranded under the FD&C Act and marketing will be prohibited.

Inactive ingredients do not require individual approval by the FDA. The FDA evaluates an inactive ingredient within the context of an NDA. After approval of the NDA, the FDA will list the inactive ingredients in the approved drug product in the FDA's Inactive Ingredient Database. Based on the listings in this Database, the FDA has not approved an NDA for a new drug containing CBD as an inactive ingredient. FDA does not list OTC inactive ingredients in the Inactive Ingredient Database for OTC drug products manufactured and marketed in accordance with an OTC monograph. It is the drug manufacturer's responsibility to ensure the suitability and safety of the inactive ingredients in its OTC monographed drug products.

It is the Corporation's position that its Canna Hemp™ line of CBD and other cannabinoid wellness products are not prohibited by the FDA and are otherwise in compliance with the FD&C Act. The Corporation does not currently market or sell any CBD products that constitute dietary supplements as specified by the FDA. Further, the Corporation does not currently market or sell products that are considered OTC drug products. The Corporation's products currently only use inactive ingredients, as regulated by the FDA.

Hemp-derived products may be legally sold and marketed in the United States where they contain hemp lawfully imported from another country or cultivated pursuant to a state agricultural program, provided the product complies with the FD&C Act and applicable state and federal law. Textiles, fibers, and certain food and cosmetic products containing hemp seed and hemp seed oils can be lawfully sold in compliance with federal law. Products containing CBD, however, may only be legal to the extent they are lawfully sourced, sold in a state where state law does not prohibit such sale and where they are compliant with the FD&C Act. Compliance with the FD&C Act may prove difficult for most ingestible CBD products, while other hemp-based products such as hemp or CBD topicals, hemp seed, hemp seed oils and certain non-ingestible products may be able to achieve compliance with FD&C Act more easily. See "*Risk Factors*".

#### ***FDA's Approach to CBD and Enforcement Action***

The FDA has taken the position that CBD cannot be marketed as a dietary supplement because it has been the subject of investigation as a new drug (such restrictions referred to as "**IND Preclusion**"). According to the FDA, the submission of the IND application for Epidiolex by Greenwich Biosciences, the U.S. subsidiary of London-based GW Pharmaceuticals, preceded the sales and marketing of CBD as a dietary supplement. Excluded from the DSHEA definition of a dietary supplement is: "an article authorized for investigation as a new drug, antibiotic, or biological for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public, which was not before such approval, certification, licensing, or authorization marketed as a dietary supplement or as a food unless the Secretary, in the Secretary's discretion, has issued a comment, finding that the article would be lawful under this Act." It is the FDA's interpretation of the IND Preclusion that the preclusion date is the date in which it authorized the drug for investigation; however, the Corporation believes there are significant arguments against this position in that all conditions of the statute must be met before the IND Preclusion applies, including (1) authorization for investigation as a new drug; (2) substantial clinical investigations must be instituted; (3) such substantial investigations must be made public; and (4) all of the above must occur prior to the marketing of the article as a food or dietary supplement. As discussed below, the FDA takes the position that CBD was not marketed in a food or dietary supplement prior to the conditions for the IND Preclusion rendering effective. The Corporation disagrees with this position and further believes that CBD was sold in interstate commerce prior to the publication of substantial clinical investigations. Thus, the Corporation takes the position that the IND Preclusion does not apply. As of the date of this Prospectus Supplement, the Corporation has not, and does not intend to file an investigational drug application with the FDA, concerning any of its products that contain CBD derived from Hemp.

There is inherent risk in marketing a product containing CBD, whether as an active or inactive ingredient, due to the drug approval awarded to Epidiolex and the FDA's existing guidance on the introduction of CBD in the food supply and marketing hemp as a dietary supplement. FDA policies and regulations may change from time to time, requiring formulation, packaging, or labeling changes or requiring the submission of an NDA for a drug product containing any amount of CBD. Although some states have passed laws that permit certain CBD products despite contrary federal laws, such state laws may also change. The Corporation cannot predict whether new federal or state regulations or legislation affecting the use of CBD in OTC products or any of the activities of the Corporation will be enacted or what effect any regulation or legislation would have on the Corporation's business.

On March 22, 2021, the FDA issued a news release announcing the issuance of warning letters to two companies for selling OTC products labeled as containing CBD, alleging that the products are illegally marketed unapproved drugs.<sup>9</sup> The letters explain that, because CBD has known pharmacological effects on humans, with demonstrated risks, it cannot be legally marketed as an inactive ingredient in OTC drug products that are not reviewed and approved by the FDA. In the letters, the FDA also alleged the products are misbranded due to the prominent featuring of CBD on the labeling, which the Agency stated is misleading because it presents the CBD inactive ingredients "in a manner that creates an impression of value greater than their true functional role in the formulation."<sup>10</sup>

There is no assurance that the position taken by the Corporation that its products are exempt from the requirements for an NDA or ANDA pre-market approval will not, in the future, be challenged by the FDA, which could result in material adverse effects to the Corporation and its business.

The FD&C Act provides that a substance added to food is unsafe unless the substance is GRAS. The FDA has not recognized CBD as GRAS for human consumption, although certain hemp seed derivatives may be considered GRAS.<sup>11 12</sup> Further research is needed to determine if other cannabinoids would be considered GRAS or what steps would be necessary for them to be recognized as GRAS. In the meantime, stakeholders including the Company are collecting data to pursue a GRAS determination for CBD, as the FDA has indicated it cannot conclude that CBD is GRAS due to the current lack of information to support this determination. Enforcement of this prohibition on the use of CBD in food has been generally limited to products making unlawful drug or disease claims, with the FDA also asserting its position that CBD is not a permissible food or dietary supplement ingredient. The Company's products containing CBD derived from Hemp are not marketed or sold using claims that the products are intended to diagnose, mitigate, treat, cure or prevent disease in violation of the FD&C Act.

On December 20, 2018, the FDA released a statement from former Commissioner Scott Gottlieb, which restated FDA's current position, opining that products containing CBD ingredients may not be sold as food or dietary supplements. The statement also contained, for the first time, a clear path toward FDA's permanent and formal acceptance of hemp-derived CBD as a food or dietary supplement ingredient. For the first time, the FDA has indicated that it is considering using its authority to issue a regulation that will specifically allow hemp-derived CBD in foods and supplements.

Statements from the FDA issued in July 2019 made clear that the FDA is "[p]aving the way for regulatory clarity[.]"<sup>13</sup> FDA "is committed to evaluating the regulatory frameworks for non-drug uses, including products marketed as foods and dietary supplements[.]"<sup>14</sup> Importantly, FDA "recognize[s] that there is substantial public interest in marketing and accessing CBD in food, including dietary supplements . . . [and that] [t]he statutory

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<sup>9</sup> U.S. Food and Drug Administration, "FDA Warns Companies Illegally Selling Over-the-Counter CBD Products for Pain Relief," <https://www.fda.gov/news-events/press-announcements/fda-warns-companies-illegally-selling-over-counter-cbd-products-pain-relief>.

<sup>10</sup> See 21 CFR 201.10(c)(4), Drugs; statement of ingredients.

<sup>11</sup> 21 CFR §§ 170.30(b), (c), 170.3(f).

<sup>12</sup> 21 CFR § 1308.35 (a)(2). The DEA's final rule on legal hemp materials and products specifically excludes materials used for human consumption.

<sup>13</sup> Amy Abernathy, M.D., Ph.D., et al., "FDA is Committed to Sound, Science-based Policy on CBD," [fda.gov, https://www.fda.gov/news-events/fda-voices-perspectives-fda-leadership-and-experts/fda-committed-sound-science-based-policy-cbd](https://www.fda.gov/news-events/fda-voices-perspectives-fda-leadership-and-experts/fda-committed-sound-science-based-policy-cbd).

<sup>14</sup> Id.

provisions that currently prohibit marketing CBD in these forms also allow the FDA to issue a regulation creating an exception, and some stakeholders have asked that the FDA consider issuing such a regulation to allow for the marketing of CBD in conventional foods or as a dietary supplement, or both."<sup>15</sup>

As it continues down this path, the FDA is "[l]istening to and learning from stakeholders[.]"<sup>16</sup> The FDA held a public hearing on May 31, 2019, to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling, and sale of products containing Cannabis or Cannabis-derived compounds. Numerous hemp industry stakeholders and consumers shared their perspectives, including Jonathan Miller, regulatory counsel to the Corporation and General Counsel for the U.S. Hemp Roundtable ("Roundtable") – the industry's leading national business advocacy association and for which the Corporation serves as a key member. Since then, Miller met with the FDA's CBD Working Group, which is reviewing the use of CBD as a food and dietary supplement ingredient.

On July 16, 2019, the FDA issued a consumer update on its efforts to address "unanswered questions about the science, safety, and quality of products containing CBD" through the feedback from the May 31, 2019 hearing and information and data gathered through a public docket.<sup>17</sup> Specifically, the FDA noted concerns regarding potential liver toxicity, questions about cumulative exposure to CBD over time, the effects of CBD on special populations (e.g., the elderly, children, adolescents, pregnant and lactating women), and the safety of CBD use in animals including pets. On October 16, 2019, the FDA issued another consumer update cautioning against the use of CBD, THC, and marijuana during pregnancy or while breastfeeding due to the current lack of comprehensive research studying the effects of CBD on the developing fetus, pregnant mother, or breastfed baby.<sup>18</sup> On November 25, 2019, the FDA provided another consumer update stating there is limited available information about CBD, including about its effects on the body.<sup>19</sup> The FDA also sent another round of warning letters to companies marketing CBD products with disease claims. Some letters were jointly issued by the Federal Trade Commission ("FTC"). In addition, the agency reiterated its position that CBD cannot be added to food and dietary supplements and stated that it is "not aware of any basis to conclude that CBD is GRAS [Generally Recognized as Safe] among qualified experts for its use in human or animal food."<sup>20</sup> As stated above, the letters targeted companies whose products violated the FD&C Act's prohibition against: (i) marketing CBD as or in a dietary supplement, human and animal food, or food additives; (ii) marketing a dietary supplement, human and animal food, or cosmetic with disease or drug claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent disease); (iii) including a substance in human or animal food when that substance is not GRAS; and (iv) selling products that are misbranded due to their failure to include "adequate directions for use by a layperson".

On March 5, 2020, former FDA Commissioner Dr. Stephen M. Hahn issued a statement on the FDA's work related to CBD products. The statement makes clear that the FDA will continue its work to educate the public on CBD's perceived safety risks and that the FDA is taking steps to solicit additional public feedback, data, and research on the science, safety, and quality of CBD products. These new steps include re-opening the public docket so that FDA can obtain additional scientific data on CBD, which will include a process by which confidential and proprietary information can be shared with the FDA and kept protected. Additionally, former Commissioner Hahn's statement reiterates that the FDA will continue to monitor and police the CBD products marketplace and is evaluating the issuance of a risk- based enforcement policy that provides greater transparency and clarity regarding factors the FDA intends to consider in prioritizing enforcement decisions.

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<sup>15</sup> Id.

<sup>16</sup> Id.

<sup>17</sup> Id.

<sup>18</sup> U.S. Food and Drug Administration, "What You Should Know About Using Cannabis, Including CBD, When Pregnant or Breastfeeding," <https://www.fda.gov/consumers/consumer-updates/what-you-should-know-about-using-cannabis-including-cbd-when-pregnant-or-breastfeeding>.

<sup>19</sup> U.S. Food and Drug Administration, "FDA warns 15 companies for illegally selling various products containing cannabidiol as agency details safety concerns," <https://www.fda.gov/news-events/press-announcements/fda-warns-15-companies-illegally-selling-various-products-containing-cannabidiol-agency-details>.

<sup>20</sup> Id.

It is clear from former Commissioner Hahn's statements, and also from FDA's prior guidance, that topical cosmetic products do not have the same regulatory scrutiny as ingestible products that contain CBD. For instance, while FDA notes that topical products must comply with all applicable legal requirements including the adulteration and misbranding provisions of the FD&C Act specific to cosmetic products, FDA's website states that "[c]ertain cosmetic ingredients are prohibited or restricted by regulation, but currently that is not the case for any cannabis or cannabis- derived ingredients." Additionally, former Commissioner Hahn had positively suggested that the effects of CBD may differ depending on the route of administration.

Much of former Commissioner Hahn's statement was also included in the FDA's congressionally mandated report on CBD, which was also submitted on March 5, 2020. On the issue of topical products, the report makes clear that "[c]osmetic ingredients do not generally require premarket approval (with the exception that most color additives do require premarket approval)" and that "it is possible that some individual products containing CBD fall outside of FDA's jurisdiction." The report confirms that the FDA is actively considering pathways to allow the marketing of CBD as a dietary supplement, which may include notice-and-comment rulemaking and interim risk-based enforcement policies. The report signals the FDA's continued interest in certain aspects of CBD, including effects from sustained use, effects from different methods of exposure, and effects on the developing brain and on the unborn child and breastfed newborn. The report acknowledges that the FDA is receiving inquiries about whether "full spectrum" and "broad spectrum" Hemp products can currently be marketed and sold, but the FDA has not yet answered the question conclusively. Largely, the report does little to address the current regulatory ambiguity for CBD and does not set a timeline for agency action, but it does signal the FDA's clear interest in a pathway for the use of CBD in dietary supplements. Further to this point, former Commissioner Hahn had publicly stated that it would be a "fool's game" for the FDA to pull CBD products from the market entirely, as their use is already widespread.

In January 2021, the FDA issued an update entitled "Better Data for a Better Understanding of the Use and Safety Profile of Cannabidiol (CBD) Products."<sup>21</sup> In the statement, the FDA acknowledges the rapid increase and interest in the availability of CBD and other products derived from cannabis, and calls for "real- world" data" on the use and safety of CBD. The call acknowledges the FDA's current gaps in understanding of the safety profile of CBD, which may be addressed through obtaining real-world data and help build a robust evidentiary foundation to inform public health decisions regarding CBD. The FDA further notes that it is continuing to "evaluate the regulatory frameworks that apply to certain cannabis-derived products that are intended for non-drug uses, including whether any new FDA regulations may be warranted." However, it is unclear whether the new FDA Commissioner appointed under the Biden Administration will take the same stance on CBD as former Commissioners Hahn and Gottlieb.

Despite the position taken by the FDA that there is no evidence of CBD being marketed as a food or dietary supplement prior to drug trials being commenced and made public, the Corporation believes there is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether cannabinoids including CBD were present in the food supply and marketed prior to October 15, 1994 or whether such inclusion of cannabinoids is otherwise permitted by the FDA as dietary ingredients, notwithstanding that cannabis and the cannabinoids contained therein have been consumed as food by human beings for centuries even if not specifically marketed as CBD or other cannabinoids. As a result, the Corporation believes the federal legality regarding the distribution and sale of hemp-based products intended for human consumption must be considered on a case-by-case basis and that the uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that Hemp products containing CBD or other cannabinoids were not present in the food supply, marketed prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient, may have a materially adverse effect upon the Corporation and its business. Moreover, if the FDA were to enforce the IND Preclusion based on its interpretation of the legislation, this would have a materially adverse effect upon the Corporation and its business.

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<sup>21</sup> See <https://www.fda.gov/news-events/fda-voices/better-data-better-understanding-use-and-safety-profile-cannabidiol-cbd-products>.



Except as described above and elsewhere in this Prospectus Supplement, the Corporation is in compliance with applicable law and has not received any citations or notices of violation which may have an impact on the Corporation's licenses, business activities or operations.

#### Future Uncertainty of Legal Status

There remain a number of considerations and uncertainties regarding the cultivation, sourcing, production and distribution of hemp and products containing hemp derivatives. Applicable laws and regulations remain subject to change as there are different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses with respect to the treatment of the importation of derivatives from exempted portions of the Cannabis plant and the scope of operation of 2018 Farm Bill-compliant hemp programs. These different federal, state and local agency interpretations, as discussed above, touch on the regulation of cannabinoids by the FDA and the extent to which imported derivatives, and/or 2018 Farm Bill-compliant cultivators and processors may engage in interstate commerce, whether under federal and/or state law. The uncertainties likely cannot be resolved without further federal and state legislation, regulation or a definitive judicial interpretation of existing legislation and rules.

Approximately 10 to 15% of the Corporation's assets, liabilities and operations are exposed to U.S. hemp-related activities.

#### **State by State Regulatory Environment**

The following sections describe the legal and regulatory landscape in the states in which the Corporation currently operates its cannabis and hemp derived businesses.

**Nonetheless, for the reasons described above and the risks further described under "Risk Factors" in the AIF, there are significant risks associated with the businesses of the Corporation. Readers are strongly encouraged to carefully read all of the risk factors contained herein, in the AIF and other documents incorporated or deemed to be incorporated by reference herein, the applicable Prospectus Supplement, the Base Shelf Prospectus and the documents incorporated or deemed to be incorporated by reference therein.**

#### ***Relevant State Cannabis Regulations***

##### Nevada Operations

Nevada's medical cannabis program was introduced in June 2013 when the legislature passed SB374, legalizing the medicinal use of cannabis for certified patients. The first dispensaries opened to patients in August 2015.

In November 2016, Nevada voters approved Question 2 with 55% of the vote, legalizing adult-use cannabis in the state. Adult-use sales launched under an "early-start" program on July 1, 2018. This market is divided into five classes of licenses: dispensaries, cultivators, distribution, product manufacturing, and testing. Licenses are tied to the locality in which they were awarded. In December 2018, the Nevada Department of Taxation, the agency which oversees the cannabis program, issued 61 new dispensary licenses. As of June 30, 2020, there were approximately 68 operational dispensaries, 134 operational cultivators, and 96 operational processors. Effective March 20, 2020, Governor Steve Sisolak ordered the closure of all dispensary storefronts, meaning that, through the duration of the order, all cannabis sales in Nevada were made via delivery. On May 1, 2020, Governor Sisolak permitted cannabis dispensaries to offer curbside pickup, in addition to delivery. On May 9, 2020, Governor Sisolak permitted the resumption of in-store sales, with certain health and safety limits, as part of the governor's plan to reopen the state.

Extracted oils, edibles, and flower products are permitted. Wholesaling is permitted.

In 2017, the Corporation agreed to acquire AMA, which operates a 10,000 square foot licensed indoor cannabis cultivation and production facility, operating in Las Vegas, Nevada. The business is licensed for both medical and adult-use sales. The AMA transactions closed in July 2017.

In 2017, concurrent with the acquisition of AMA, the Corporation agreed to acquire Infused, which is a licensed hemp-CBD product manufacturer and distributor. The transaction closed in July 2017.

AMA's business involves the growing of cannabis indoors for personal medicinal and recreational use and the production of premium, boutique concentrates for the Nevada market. As of the date of this Prospectus, AMA currently holds the following cannabis licenses: (i) medical and adult-use cultivation, (ii) medical and adult-use production, and (iii) medical & adult-use distribution. AMA operates a 67,000 square foot cannabis cultivation facility operating in Las Vegas, Nevada, a 10,000 square foot extraction and production cannabis facility, and a cannabis distribution business.

As of the date of this Prospectus Supplement, Infused currently operates a 15,000 square foot hemp-CBD product manufacturing facility, operating in Las Vegas, Nevada. The Corporation, through Infused, is focused on developing, formulating, and producing CBD products and brands for retail sale and use in jurisdictions where permitted by law and regulation in the US.

#### *State Hemp/CBD Regulations*

Under both the 2014 and the 2018 Farm Bills, states retain significant discretion and authority to adopt their own regulatory regimes governing hemp production. As a result, regulation of hemp and the products derived therefrom will likely continue to vary on a state-by-state basis even after the 2018 Farm Bill is fully implemented. In addition, states take varying approaches to regulating the production and sale of hemp-derived CBD. While some states explicitly authorize and regulate the production and sale of hemp-derived CBD or otherwise provide legal protection for authorized individuals to engage in commercial hemp activities, other states maintain outdated drug laws that do not distinguish between marijuana, hemp and/or hemp-derived CBD, resulting in hemp being classified as a controlled substance under state law. In these states, sale of CBD, notwithstanding origin, is either restricted to state medical or adult-use marijuana program licensees or remains otherwise unlawful under state criminal laws. Additionally, a number of states prohibit the sale of ingestible CBD products based on FDA's position that, pursuant to the FD&C Act, it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, regardless of whether the substances are hemp-derived. For example, Kentucky, Tennessee, Indiana, Florida, Missouri, Colorado, and dozens of other states have passed laws that explicitly exempt hemp extracts such as CBD from legal prohibitions applicable to controlled substances such as marijuana. Since the Corporation's products are specifically excepted from the CSA by the 2018 Farm Bill's definition of Hemp, it is the Corporation's position that such state laws would specifically exempt them as well.

Accordingly, the sale of CBD at the retail level in most U.S. states remains a gray area of the law which continues to evolve. An increasing number of states – including Alaska, Florida, Iowa, New York, Texas, Utah, Virginia, and West Virginia – have enacted laws that explicitly permit the sale of CBD. Several of these states also place additional requirements on the sale of CBD products such as specific testing, labeling, or registration of products. The Corporation has chosen to sell its products in most states, understanding that there is a risk of state or local law enforcement or regulatory action, and that state-specific requirements may vary significantly. Moreover, the Corporation has limited access to information regarding or control over which states its products may transit through between production and sale.

#### **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The distribution and acquisition of the securities described herein may subject the Creditors participating in the Debt Settlement to tax consequences in both the U.S. and Canada. This Prospectus Supplement does not describe these tax consequences. The Corporation has not made any representation regarding the tax consequences of an

investment in the securities. You should read the information in this Prospectus Supplement, the Base Shelf Prospectus and the documents incorporated by reference herein and therein, and consult your own tax advisor with respect to your own particular circumstances.

## **RISK FACTORS**

**An investment in the Debentures involves a high degree of risk and must be considered highly speculative due to the nature of the Corporation's business and is only suitable for investors who are willing and can afford to risk a loss of their entire investment. Prospective investors should give careful consideration, in light of their own financial circumstances, to all of the information contained and incorporated or deemed to be incorporated by reference in this Prospectus Supplement, and in particular should give special consideration to the risk factors below and in the section entitled "*Caution Regarding Forward-Looking Statements*" above and included in the AIF, the Base Shelf Prospectus and those described in a document incorporated by reference in this Prospectus Supplement (including subsequently filed documents incorporated by reference), and consult their own experts where necessary.**

In addition to the below, discussions of certain risks affecting the Corporation in connection with its business are provided in the Corporation's disclosure documents filed with the various securities regulatory authorities which are incorporated by reference in this Prospectus Supplement. Additional risks not presently known to the Corporation or that it currently considers immaterial may also materially and adversely affect the Corporation. If any of the events identified in these risks and uncertainties were to actually occur, the Corporation's business, financial condition, results of operations or prospects could be materially harmed.

### **Risks Related to the Debt Settlement**

#### ***Completion of the Debt Settlement***

The completion of the Debt Settlement remains subject to a number of conditions. There can be no certainty that the Debt Settlement will be completed. Failure by the Corporation to satisfy all of the conditions precedent to the Debt Settlement would result in the Debt Settlement not being completed. If the Debt Settlement is not completed, the Corporation may not be able to raise the funds required for the purposes repaying the Historical Debentures from other sources on commercially reasonable terms or at all.

#### ***Credit Risk and Earnings Coverage***

The likelihood that acquirors of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health and creditworthiness of the Corporation and the ability of the Corporation to generate revenues or raise additional funds. See "*Earnings Coverage Ratios*", which is relevant to the assessment of the risk that the Corporation may be unable to pay interest or principal on the Debentures when due. There is no guarantee that the Corporation will be able to pay interest when due or repay the outstanding principal amount of the Debentures upon maturity.

#### ***Positive Returns on Securities Not Guaranteed***

There is no guarantee that an investment in the Corporation's securities will earn any positive return in the short term or long term. An investment in the Debentures involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. An investment in the Debentures is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

#### ***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 Corporation 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 Debentures to sell their securities at an advantageous price. The market price of such securities may decline even if the Corporation'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 Corporation's operations could be adversely impacted and the trading price of the Common Shares, Debentures may be materially adversely affected.

If an active market for the Common Shares does not continue, the liquidity of an investor's investment may be limited and the price of such securities may decline below the price at which the Debentures are acquired. If such a market does not develop, investors may lose their entire investment in the Debentures.

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

#### ***No Market for Debentures and Conversion Warrants***

There is currently no market through which the Debentures or the Conversion Warrants may be sold and the Debentures and the Conversion Warrants will not be listed on any securities or stock exchange or any automated dealer quotation system. As a consequence, purchasers may not be able to resell the Debentures or the Conversion Warrants acquired under this Prospectus Supplement. This may affect the pricing of the Debentures and the Conversion Warrants in the secondary market, the transparency and availability of trading prices and the liquidity of these securities. There can be no assurance that an active trading market for the Debentures or the Conversion Warrants will develop or, if developed, that any such market will be sustained.

#### ***Absence of Covenant Protection***

The Trust Indenture will not limit the ability of the Corporation to incur additional debt or liabilities (including senior indebtedness) or otherwise from mortgaging, pledging or charging its real or personal property to secure any indebtedness or other financing. Nor will the Trust Indenture prohibit or limit the ability of the Corporation to pay dividends, except where an Event of Default has occurred and such default has not been cured or waived. The Trust Indenture will not contain any provision specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Corporation or any of its subsidiaries.

#### ***Prevailing Yields on Similar Securities***

Prevailing yields on similar securities will affect the market value of the Debentures. Assuming all other factors remain unchanged, the market value of the Debentures will decline as prevailing yields for similar securities rise, and will increase as prevailing yields for similar securities decline.

#### ***Redemption Prior to Maturity***

At the option of the Corporation, it may force the conversion of the Debentures into Units, on not less than thirty (30) days prior notice provided that the daily volume weighted average trading price of the Common Shares on the CSE is not less than \$0.07 for any 10 consecutive trading days. Holders of Debentures should assume that this option will be exercised if the Corporation is able to refinance at a lower interest rate or it is otherwise in the interest of the Corporation to redeem the Debentures.

### ***Conversion following Certain Transactions***

In the case of certain transactions, each Debenture will become convertible into securities, cash or property receivable by a holder of Common Shares in the kind and amount of securities, cash or property into which the Debenture was convertible immediately prior to the transaction. This change could substantially reduce or eliminate any potential future value of the conversion privilege associated with the Debentures in the future.

### ***Structural Subordination of the Convertible Debentures***

The Debentures will be direct, unsecured obligations of the Corporation, effectively subordinated to all current and future secured debt and other liabilities of the Corporation to the extent of the assets securing such debt and other liabilities. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the Corporation, the assets that serve as collateral for any secured indebtedness would be made available to satisfy the obligations of the creditors of such secured indebtedness before being available to pay the Corporation's obligations to holders of Debentures. Accordingly, all or a substantial portion of the Corporation's assets could be unavailable to satisfy the claims of the holders of Debentures. In addition, the Debentures will not be guaranteed by any subsidiary of the Corporation and will be structurally subordinated to all current and future liabilities of the Corporation's subsidiaries, including trade payables. This subordination may significantly reduce the possibilities for purchasers of obtaining payment of the amounts owed under the Debentures.

### ***Withholding and Change in Tax Laws***

The Trust Indenture will not contain a requirement that the Corporation increase the amount of interest or other payments to holders of Debentures in the event that the Corporation is required to withhold amounts in respect of income or similar taxes on payments of interest or other amounts on the Debentures. At present, the Corporation does not intend to withhold amounts from such payments to holders of Debentures that, for purposes of the *Income Tax Act* (Canada) (the "**Tax Act**"), are at the time of payment either (i) resident in Canada, or (ii) not resident in Canada and (A) deal at arm's length with the Corporation, and (B) are not deemed to receive such payments as dividends, but no assurance can be given that the Tax Act and other applicable income tax laws will not be changed in a manner that may require the Corporation to withhold amounts in respect of tax payable on such amounts.

### ***Investment Eligibility***

The Company will endeavour to ensure that, following the issuance of the Convertible Debentures and the Warrants, the Convertible Debentures, the Warrants and the Underlying Securities continue to be qualified investments under the Tax Act for trusts governed by Registered Plans (except, in the case of the Convertible Debentures, a deferred profit sharing plan to which the Company, or an employer that does not deal at arm's length with the Company, has made a contribution), however there can be no assurance that the conditions prescribed for the Convertible Debentures, the Warrants and the Shares to continue to be qualified investments will be adhered to at any particular time. The Tax Act imposes penalties for the acquisition or holding of non-qualified or prohibited investments.

### ***Shareholder Rights***

Holders of Debentures and Conversion Warrants will not be entitled to any rights with respect to the Common Shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on the Common Shares, other than extraordinary dividends that the board of directors designates as payable to the holders of the Debentures and Conversion Warrants), but if such a holder subsequently: (a) exercises its Conversion Warrants; or (b) converts its Debentures, into Units, such holder will be subject to all changes affecting the Common Shares. Rights with respect to the Common Shares will arise only if and when the Corporation delivers Common Shares upon (a) the exercising of a Conversion Warrant; or (b) the conversion of a Debenture and, to a limited extent, under the conversion rate adjustments under the Warrant Indenture and the Trust

Indenture. For example, in the event that an amendment is proposed to the Corporation's constating documents requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to delivery of Common Shares to a holder, such holder will not be entitled to vote on the amendment, although such holder will nevertheless be subject to any changes in the powers or rights of Common Shares that result from such amendment.

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

The Corporation may issue additional securities in the future, which may dilute a shareholder's holdings in the Corporation. The Corporation's constating documents permit the issuance of an unlimited number of Common Shares. The Corporation's shareholders do not have pre-emptive rights in connection with any future issuances of securities by the Corporation. The directors of the Corporation have discretion to determine the price and the terms of further issuances. Moreover, additional Common Shares will be issued by the Corporation on the exercise of options under its stock option plan and upon the exercise of outstanding convertible securities. Further, the Corporation's shareholders may sell substantial amounts of securities of the Corporation following an offering of securities.

The Corporation cannot predict the size of future sales or issuances of equity securities or convertible debt securities or the effect, if any, that future sales and issuances of equity securities or convertible debt securities may have on the market price of the Common Shares. However, sales or issuances of a substantial number of equity securities or convertible debt securities, or the perception that such sales could occur, may adversely affect prevailing market prices for the Common Shares.

### ***Additional Financing***

The continued development of the Corporation will require additional financing. There is no guarantee that the Corporation will be able to achieve its business objectives. The Corporation expects to fund its future business activities by way of additional offerings of equity and/or debt financing. The failure to raise or procure such additional funds 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 Corporation. 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 Corporation and also contain restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Corporation to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Corporation will require additional financing to fund its operations until positive cash flow is achieved. See "*Risk Factors – Negative Cash Flow from Operations.*"

### ***Negative Cash Flow from Operations***

The Corporation sustained net losses from operations and had negative cash flow from operations for the year ended July 31, 2022 and for three and nine months ended April 30, 2023, and has a history of losses from operations since inception. Although the Corporation expects to generate positive cash flows in future periods, due to the rapid growth in the Corporation and its continued expansion, the Corporation cannot guarantee that it will have a positive cash flow status in the future and may incur significant losses in the future. In addition, the Corporation expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Corporation's revenues do not increase to offset its costs and operating expenses or if the Corporation is unable to raise financing to fund capital or operating expenditures or acquisitions, it could limit its growth and may have a material adverse effect upon the Corporation's business, financial condition, cash flows, results of operations or prospects. To the extent the Corporation has negative cash flow from operating activities in any future periods, certain of the proceeds from an offering of securities by the Corporation may be used to fund such negative cash flow from operating activities.

## ***Dividends***

The Corporation does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Corporation 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 Corporation's board of directors and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Corporation'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 "*Caution Regarding Forward-Looking Statements.*"

## ***It May Be Difficult, If Not Impossible, For U.S. Holders of the Corporation'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 Corporation'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 Corporation that they may acquire in open market transactions.

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

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

The activities of the Corporation are subject to regulation by governmental authorities. Achievement of the Corporation'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 Corporation 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 Corporation.

The Corporation 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 Corporation 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 Corporation. Further, the Corporation 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 Corporation 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 Corporation's earnings and could make future capital investments or the Corporation'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 Prospectus Supplement 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 Corporation 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 Corporation 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.

#### ***Cannabis Continues to be a Controlled Substance under the United States Federal Controlled Substances Act***

The Corporation is engaged directly and indirectly in the medical and adult-use cannabis industry in the U.S. where only state law permits such activities. Investors are cautioned that in the U.S., cannabis is largely regulated at the State level. To the Corporation's knowledge, cannabis has been legalized in some form in approximately 37 States and Washington, D.C., Puerto Rico and Guam as at the date hereof. Additional States have pending legislation regarding the same.

Notwithstanding the permissive regulatory environment of cannabis at the State level, cannabis continues to be categorized as a controlled substance under the CSA and as such, cultivation, distribution, sale and possession of cannabis violates federal law in the U.S. Unless and until Congress amends the CSA with respect to cannabis (and the President approves such amendment), there is a risk that federal authorities may enforce current federal law.

The DOJ, under the current administration, could allege that the Corporation has "aided and abetted" in violations of federal law by providing financing and services to its portfolio cannabis companies. Under these circumstances, the federal prosecutor could seek to seize the assets of the Corporation, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Corporation's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

Notwithstanding the foregoing, as part of the Congressional omnibus-spending bill, Congress renewed, through September 30, 2020, the Rohrabacher-Farr Amendment, which prohibits the DOJ from expending any funds for the prosecution of medical cannabis businesses operating in compliance with State and local laws. At such time, it may



or may not be included in the omnibus appropriations package or a continuing budget resolution once the current continuing resolution expires. Should the Rohrabacher-Farr Amendment not be renewed upon expiration in subsequent spending bills, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with State law. Such potential proceedings could involve significant restrictions being imposed upon the Corporation or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition as well as the Corporation's reputation, even if such proceedings were concluded successfully in favor of the Corporation

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 Corporation, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the U.S., the listing of its securities on the CSE, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Corporation 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 "*United States Regulatory Environment – Federal Regulatory Environment*".

#### **LEGAL MATTERS**

Certain legal matters relating to the Debt Settlement under this Prospectus Supplement will be passed upon on behalf of the Corporation by S. Paul Simpson Law Corporation, Vancouver, British Columbia with respect to matters of Canadian securities law. As at the date hereof, the "designated professionals" (as such term is defined in Form 51-102F2 – Annual Information Form) of S. Paul Simpson Law Corporation hold, directly or indirectly, no securities of the Corporation.

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

MNP LLP, Chartered Professional Accountants is the auditor of the Corporation and has confirmed that they are independent within the meaning of the Code of Professional Conduct of the Chartered Accountants of Ontario. MNP LLP have performed the audit in respect of certain financial statements incorporated by reference herein.

The transfer agent and registrar for the Common Shares is Odyssey Trust Company at its principal offices in Calgary, Alberta.

#### **INTEREST OF EXPERTS**

The following are the names of each person or company who has prepared or certified a report, valuation, statement or opinion in this Prospectus Supplement, either directly or in a document incorporated by reference and whose profession or business gives authority to the report, valuation, statement or opinion made by the person or the Corporation.

- S. Paul Simpson Law Corporation is the Corporation's counsel with respect to Canadian legal matters herein; and
- MNP LLP, Chartered Professional Accountants, is the Corporation's independent auditor and has provided an auditor's report on the Annual Financial Statements of the Corporation incorporated by reference into this Prospectus Supplement.

## **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In an offering of securities which are convertible, exchangeable or exercisable for other securities of the Corporation, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in this Prospectus Supplement or any amendment thereto is limited, in certain provincial and territorial securities legislation, to the price at which the securities which are convertible, exchangeable or exercisable for other securities of the Corporation are offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces and territories of Canada, if the purchaser pays additional amounts upon conversion, exchange or exercise of the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces and territories of Canada. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of this right of action for damages, or consult with a legal adviser.

## **ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS**

The following directors and officers of the Corporation, being Lisa Capparelli, Curtis Floyd, Ester Vigil, and Caleb Zobrist, reside outside of Canada and each has appointed Armstrong Simpson, located at 2080 – 777 Hornby Street, Vancouver, BC, Canada, V6Z 1S4, as his/her agent for service of process in Canada.

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada or is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process.

## CERTIFICATE OF THE CORPORATION

Date: December 29, 2023

The short form prospectus, together with the documents incorporated in this short form prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of British Columbia, Alberta, Saskatchewan and Ontario.

CHIEF EXECUTIVE OFFICER

By: *(Signed) Paul Rosen*  
Paul Rosen  
Chief Executive Officer

CHIEF FINANCIAL OFFICER

By: *(Signed) Brian Farrell*  
Brian Farrell  
Chief Financial Officer

## ON BEHALF OF THE BOARD OF DIRECTORS

By: *(Signed) Lisa Capparelli*  
Lisa Capparelli  
Director

By: *(Signed) D. Richard Skeith*  
D. Richard Skeith  
Director

*This short form prospectus is a base shelf prospectus. This short form base shelf prospectus has been filed under legislation in each of the provinces of British Columbia, Alberta, Saskatchewan and Ontario, that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities, except in cases where an exemption from such delivery requirements has been obtained or is otherwise available.*

*No securities regulatory authority has expressed an opinion about these securities, and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.*

*Information has been incorporated by reference in this short form base shelf prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of 1933 Industries Inc., #300 – 1055 West Hastings Street, Vancouver, British-Columbia, Canada, V6E 2E9, telephone (604) 728-4407, and are also available electronically at [www.sedar.com](http://www.sedar.com).*

## SHORT FORM BASE SHELF PROSPECTUS

New Issue

November 17, 2022



### 1933 INDUSTRIES INC.

**US\$50,000,000**

**Common Shares**

**Debt Securities**

**Subscription Receipts**

**Warrants**

**Convertible Securities**

**Units**

1933 Industries Inc. ("1933", or the "Corporation", or the "Company") may from time to time offer and issue the following securities: (i) common shares of the Corporation ("Common Shares"); (ii) debt securities of the Corporation ("Debt Securities"); (iii) subscription receipts ("Subscription Receipts") exchangeable for Common Shares and/or other securities of the Corporation; (iv) warrants exercisable to acquire Common Shares and/or other securities of the Corporation ("Warrants"); and (v) securities convertible into or exchangeable for Common Shares and/or other Securities ("Convertible Securities"); (vi) securities comprised of more than one of Common Shares, Debt Securities, Subscription Receipts and/or Warrants offered together as a unit ("Units"), or any combination thereof having an offer price of up to US\$50,000,000 in aggregate (or the equivalent thereof, at the date of issue, in any other currency or currencies, as the case may be) at any time during the 25-month period that this short form base shelf prospectus (including any amendments hereto, the "Prospectus") remains valid. The Common Shares, Debt Securities, Subscription Receipts, Warrants and Units (collectively, the "Securities") offered hereby may be offered in one or more offerings, separately or together, in separate series, in amounts, at prices and on terms to be set forth in one or more prospectus supplements (collectively or individually, as the case may be, "Prospectus Supplements").

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices and as set forth in an accompanying Prospectus Supplement. See "*Plan of Distribution*".

The issued and outstanding Common Shares are listed and posted for trading on the CSE under the symbol "TGIF" and on the OTCQB<sup>®</sup> Venture Market by OTC Markets Group (the "**OTCQB**") under the symbol "TGIF". On November 16, 2022, the last trading day prior to the date of this Prospectus, the closing price per Common Share on the CSE was CDN\$0.025 and on the OTCQB was US\$0.018. **Unless otherwise specified in the applicable Prospectus Supplement, the Debt Securities, Subscription Receipts, Warrants and Units will not be listed on any securities exchange.**

**There is no market through which these Securities, other than the issued and outstanding Common Shares, may be sold and purchasers may not be able to resell such Securities purchased under this Prospectus. This may affect the pricing of the Securities in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities, and the extent of issuer regulation. See "*Risk Factors*".**

The specific terms of any offering of Securities will be set forth in the applicable Prospectus Supplement and may include, without limitation, where applicable: (i) in the case of Common Shares, the number of Common Shares being offered, the offering price, whether the Common Shares are being offered for cash, and any other terms specific to the Common Shares being offered; (ii) in the case of Debt Securities, the specific designation, aggregate principal amount, the currency or the currency unit for which the Debt Securities may be purchased, maturity, interest provisions, authorized denominations, offering price, whether the Debt Securities are being offered for cash, the covenants, the events of default, any terms for redemption or retraction, any exchange or conversion rights attached to the Debt Securities, and any other terms specific to the Debt Securities being offered; (iii) in the case of Subscription Receipts, the number of Subscription Receipts being offered, the offering price, whether the Subscription Receipts are being offered for cash, the terms, conditions and procedures for the exchange of the Subscription Receipts into or for Common Shares and/or other securities of the Corporation and any other terms specific to the Subscription Receipts being offered; (iv) in the case of Warrants, the number of such Warrants offered, the offering price, whether the Warrants are being offered for cash, the terms, conditions and procedures for the exercise of such Warrants into or for Common Shares and/or other securities of the Corporation and any other specific terms; and (v) in the case of Units, the number of Units being offered, the offering price, the terms of the Common Shares, Debt Securities, Subscription Receipts and/or Warrants underlying the Units, and any other specific terms.

All shelf information permitted under applicable securities legislation to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to purchasers together with this Prospectus, except in cases where an exemption from such delivery requirements has been obtained or is otherwise available. Each Prospectus Supplement will be incorporated by reference into this Prospectus as at the date of such Prospectus Supplement and only for the purposes of the distribution of the Securities covered by that Prospectus Supplement. You should read this Prospectus and any applicable Prospectus Supplement carefully before you invest in any securities issued pursuant to this Prospectus. This Prospectus may not be used to sell any securities unless accompanied by a Prospectus Supplement. The offerings are subject to approval of certain legal matters on behalf of the Corporation by TingleMerrett LLP, with respect to matters of Canadian law.

The Corporation may sell the Securities, separately or together: (i) to one or more underwriters or dealers; (ii) through one or more agents; or (iii) directly to one or more purchasers. The Prospectus Supplement relating to a particular offering of Securities will describe the terms of such offering of Securities, including: (i) the terms of the Securities to which the Prospectus Supplement relates, including the type of Security being offered, and the method of distribution; (ii) the name or names of any underwriters, dealers, or agents involved in such offering of Securities; (iii) the purchase price of the Securities offered thereby and the proceeds to, if any, and the expenses borne by, if any, the Corporation from the sale of such Securities; (iv) any commission, underwriting discounts and other items constituting compensation payable to underwriters, dealers or agents; and (v) any discounts or concessions allowed or re-allowed or paid to underwriters, dealers or agents. See "*Plan of Distribution*".

In connection with any offering of the Securities, subject to applicable laws the underwriters or agents may over-allot or effect transactions that stabilize or maintain the market price of the offered Securities at a level above that which might otherwise prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time. See "*Plan of Distribution*".

**An investment in the Securities should only be undertaken by those persons who can afford the total loss of their investment. The Securities should be considered speculative due to various factors, including the nature of the**

Corporation's business. A prospective purchaser should therefore review this Prospectus and the documents incorporated by reference herein in their entirety and carefully consider the risk factors described or referenced under "*Risk Factors*" and in the documents incorporated by reference herein prior to investing in such Securities, as well as the information under the heading "*Caution Regarding Forward-Looking Statements*". Potential investors are advised to consult their own legal counsel and other professional advisors in order to assess tax, legal and other aspects of an investment in the Corporation.

**No underwriter, dealer or agent has been involved in the preparation of this Prospectus or performed any review of the contents of this Prospectus.**

The Corporation has one class of issued and outstanding shares: the Common Shares. Each Common Share is entitled to one vote per Common Share on all matters upon which the holders of Common Shares are entitled to vote. Holders of Common Shares are entitled to receive, as and when declared by the board of directors of the Corporation (the "**Board**"), dividends in cash or property of the Corporation. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of Common Shares are, subject to the prior rights of the holders of any shares of the Corporation ranking in priority to the Common Shares, entitled to participate ratably along with all other holders of Common Shares. See "*Description of Share Capital of the Corporation*".

For those directors and executives of the Corporation who reside outside of Canada, each has appointed Armstrong Simpson, located at 2080 – 777 Hornby Street, Vancouver, BC, Canada, V6Z 1S4, as his or her agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada or is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process.

The Corporation's head office is located at 3370 Pinks Place, Suite C, Las Vegas, 89102, United States, and the Corporation's registered and records office is located #300 – 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

**This Prospectus qualifies the distribution of securities of an entity that currently directly derives 100% of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. Federal Law. As at the date hereof, 100% of the Corporation's operations are in the United States. The Corporation is directly involved (through its subsidiaries) in both the adult-use and medical cannabis industry in the State of Nevada, as permitted under applicable state law which states have regulated such industries. In addition, the Corporation is indirectly involved in the hemp cannabidiol ("CBD") industry in the United States. All CBD infused products produced and sold by the Company are derived from hemp under the 2018 Farm Bill (as defined herein), as well as under the laws of the states in which the Company manufactures such products.**

**The cultivation, sale and use of cannabis is illegal under United States federal law pursuant to the Controlled Substance Act (21 U.S.C. §811) (the "CSA"). The United States federal government regulates drugs through the CSA, which places controlled substances, including cannabis, in a schedule. Other than industrial hemp, cannabis is classified as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. Under the CSA, the policies and regulations of the United States federal government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The United States Food and Drug Administration has approved Epidiolex, which is a CBD oral solution with an active ingredient derived from the cannabis plant for the treatment of seizures associated with two rare and severe forms of epilepsy, Lennox-Gastaut syndrome and Dravet syndrome, in patients two years of age and older. This is the first drug approved by the U.S. Food and Drug Administration ("FDA") that contains a purified drug substance derived from the cannabis plant. In this case, the substance is CBD, a chemical component of marijuana that does not contain the intoxication properties of tetrahydrocannabinol ("THC"), the primary psychoactive component of marijuana.**

**Despite the current state of the federal law and the CSA, medical cannabis is currently legal in approximately 40 states and Washington D.C., Puerto Rico and Guam for patients with certain qualifying conditions. The States of Alaska, Arizona, California, Colorado, Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, Nevada, New Jersey, New Mexico, New York, Oregon, Rhode Island, Vermont, Virginia, Washington, Washington D.C., and the District of Columbia, have legalized**

recreational use of cannabis, although the District of Columbia has not legalized commercial sale of cannabis. This list includes states that have passed legislation to legalize recreational use of cannabis, but the laws have not yet gone into effect.

Over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis, provided that there are strict limits on the levels of THC. However, there is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions.

Accordingly, cannabis is largely regulated at the state level. State laws that permit and regulate the production, distribution and use of cannabis for adult-use or medical purposes are in direct conflict with the CSA. Although certain states authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under United States federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

On December 27, 2020, former President Donald Trump signed the Consolidated Appropriations Act of 2021, which included the Rohrabacher-Farr Amendment, which prohibits the funding of federal prosecutions with respect to medical cannabis activities that are legal under state law. There can be no assurances that the Rohrabacher-Farr Amendment will be included in future appropriations bills or budget resolutions. At this time, there is still very little clarity as to how President Joseph Biden, or Attorney General Merrick Garland, will enforce federal law or how they will deal with states that have legalized medical or recreational marijuana. While bipartisan support is gaining traction on decriminalization and reform, there is no imminent timeline on any potential legislation. There is no guarantee that the current Presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with State laws. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed, amended or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. See "*United States Regulatory Environment*" for additional information.

The Corporation'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. Accordingly, there are a number of significant risks associated with the business of the Corporation. Unless and until the United States Congress amends the CSA with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current U.S. federal law, and the business of the Corporation may be deemed to be producing, cultivating, extracting, or dispensing cannabis or aiding or abetting or otherwise engaging in a conspiracy to commit such acts in violation of federal law in the United States. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Corporation's business, results of operations, financial condition and prospects would be materially adversely affected.

In light of the political and regulatory uncertainty surrounding the treatment of United States cannabis-related activities, on February 8, 2018, the Canadian Securities Administrators published CSA Staff Notice 51-352 – (*Revised*) *Issuers with U.S. Marijuana-Related Activities* ("Staff Notice 51-352") setting out the Canadian Securities Administrator's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with United States cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the United States cannabis industry.

For these reasons, the Corporation's investments in the United States cannabis market may subject the Corporation to heightened scrutiny by regulators, stock exchanges, clearing agencies and other United States and Canadian authorities. There are a number of risks associated with the business of the Corporation. See sections entitled "*Risk Factors*" and "*United States Regulatory Environment*" in this Prospectus and in the AIF (as hereinafter defined).

In addition, over the past several years, the FDA has issued numerous warning letters to companies marketing CBD products with disease claims, rendering the products unapproved drugs according to FDA. The letters also reiterate the agency's position that CBD cannot be added to food and dietary supplements. This matter is still in active discussion with the FDA and is unresolved as of the date of this Prospectus. While the Company disagrees with the position of the FDA, there is risk that this agency, or the FTC (as defined herein), could take law enforcement or regulatory actions against the Company.

If the Company's hemp related operations are found to be in violation of any of such laws or any other governmental regulations, the Company may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures, any of which would adversely affect the Company's business and financial results. If the FDA or the FTC takes action against the Company or the CBD industry, notwithstanding the regulatory regime surrounding the 2018 Farm Bill, this would have a material adverse effect on the Company's business, financial condition and results of operations including, potentially, the cessation of operations entirely. Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Company's suppliers, service providers, and distributors may elect, at any time, to breach or otherwise cease to participate in supply, service or distribution agreements, or other relationships, on which the Company's operations rely. Loss of its suppliers, service providers, or distributors would have a material adverse effect on the Company's business and operational results. See "*Risk Factors*".



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## **ABOUT THIS SHORT FORM BASE SHELF PROSPECTUS**

An investor should rely only on the information contained in this Prospectus (including the documents incorporated by reference herein) and is not entitled to rely on parts of the information contained in this Prospectus (including the documents incorporated by reference herein) to the exclusion of others. The Corporation has not authorized anyone to provide investors with additional or different information. The Corporation takes no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give readers of this Prospectus. Information contained on, or otherwise accessed through, the Corporation's website shall not be deemed to be a part of this Prospectus (or of any applicable Prospectus Supplement) and such information is not incorporated by reference herein.

The Corporation is not offering to sell the Securities in any jurisdictions where the offer or sale of the Securities is not permitted. The information contained in this Prospectus (including the documents incorporated by reference herein) is accurate only as at the date of this Prospectus or as at the date of a particular distribution of securities under the Prospectus and investors should not assume that the information contained in this Prospectus is accurate as of any other date, regardless of the time of delivery (if applicable) of this Prospectus or any sale of the Common Shares, Debt Securities, Subscription Receipts, Warrants and/or Units. The business, financial condition, capital, results of operations and prospects of the Corporation may have changed since those dates. The Corporation does not undertake to update the information contained or incorporated by reference herein, except as required by applicable Canadian securities laws.

This Prospectus shall not be used by anyone for any purpose other than in connection with an offering of Securities as described in one or more Prospectus Supplements.

The documents incorporated or deemed to be incorporated by reference herein contain meaningful and material information relating to the Corporation and readers of this Prospectus should review all information contained in this Prospectus, the applicable Prospectus Supplement and the documents incorporated or deemed to be incorporated by reference herein and therein.

## **MEANING OF CERTAIN REFERENCES AND CURRENCY PRESENTATION**

References to dollars and "\$" or "US\$" are to United States dollars unless otherwise indicated. All references to "CDN\$" and "C\$" refer to Canadian dollars. On November 16, 2022, the daily exchange rate for the United States dollar in terms of Canadian dollars, as quoted by the Bank of Canada, was US\$1.3311 = CDN\$1.00.

Unless the context otherwise requires, all references in this Prospectus to "1933", the "Corporation", the "Company" and "we", "us" and "our" refer to 1933 Industries Inc., its direct and indirect subsidiary entities on a consolidated basis, and other entities consolidated other than on the basis of ownership.

## **MARKET AND INDUSTRY DATA**

The Corporation has obtained the market and industry data and forecasts presented in this Prospectus (including the documents incorporated by reference herein) from third party information. There are limited sources that report on the Corporation's markets and industries. Actual outcomes may vary materially from those forecast in the reports or publications referred to herein, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While the Corporation believes third party information are reliable, the Corporation has not verified them, nor have they been verified by any independent sources and the Corporation has no assurance that the information contained in third party websites is current and up to date. While the Corporation is not aware of any misstatements regarding the market and industry data presented in this Prospectus (including the documents incorporated by reference herein), such data involves risks and uncertainties and are subject to change based on various factors, including those factors discussed under "*Forward-Looking Statements*" and "*Risk Factors*".

## **TRADEMARKS AND TRADENAMES**

This Prospectus, any applicable Prospectus Supplement and the documents incorporated herein by reference include references to the Corporation's trademarks, including, without limitation, the "1933 Industries" trademark on the face page of this Prospectus, which are protected under applicable intellectual property laws and are the Corporation's property. The Corporation's trademarks and trade names referred to in this Prospectus, any applicable Prospectus Supplement and the documents incorporated herein by reference may appear without the ® or ™ symbol, but references to the Corporation's trademarks and trade names in the absence of such symbols are not intended to indicate, in any way, that the Corporation will not assert, to the fullest extent under applicable law, its rights to these trademarks and trade names. All other

trademarks and trade names used in this Prospectus, any applicable Prospectus Supplement or in documents incorporated herein by reference are the property of their respective owners.

### **NON-IFRS AND OTHER MEASURES**

The Corporation prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee in effect as of and for the year ended July 31, 2021.

This Prospectus and the documents incorporated or deemed to be incorporated by reference herein may make reference to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing a further understanding of the Corporation's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Corporation's financial information reported under IFRS. The Corporation uses non-IFRS measures to provide investors with supplemental measures of the Corporation's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Corporation also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Corporation's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess its ability to meet future debt service, capital expenditure and working capital requirements, and in the determination of components of management compensation. Because other companies may calculate these non-IFRS measures differently than the Corporation does, these metrics are not comparable to similarly titled measures reported by other companies.

Certain calculations included in tables and other figures in this Prospectus and any tables and other figures in this Prospectus and any applicable Prospectus Supplement may have been rounded for clarity of presentation.

### **CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This Prospectus and the documents incorporated by reference in this Prospectus contain "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities laws and United States securities laws. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on management's beliefs, expectations or assumptions regarding the future of the business, future plans and strategies, operational results and other future conditions of the Corporation. Forward-looking statements contained in certain documents incorporated by reference in this Prospectus are based on the key assumptions described in such documents. In addition, the Corporation may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Corporation that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Corporation that address activities, events or developments that the Corporation expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as "may", "will", "would", "could", "should", "believes", "estimates", "projects", "potential", "expects", "plans", "intends", "anticipates", "targeted", "continues", "forecasts", "designed", "goal", or the negative of those words or other similar or comparable words and includes, among others, information regarding: expectations for the effects and potential benefits of any transactions; expectations for the effects of the pandemic of the novel coronavirus ("COVID-19") on the business' operations and financial condition; statements relating to the business and future activities of, and developments related to, the Corporation after the date of this Prospectus, including such things as future business strategy, competitive strengths, goals, expansion and growth of the Corporation's business, operations and plans; expectations that planned acquisitions will be completed; expectations that licenses applied for will be obtained; potential future legalization of adult-use and/or medical cannabis under U.S. federal law; expectations of market size and growth in the U.S. and the states in which the Corporation operates; expectations for other economic, business, regulatory and/or competitive factors related to the Corporation or the cannabis industry generally; the ability for U.S. holders of securities of the Corporation to sell them on the Canadian Securities Exchange ("CSE"); and other events or conditions that may occur in the future. Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations.

Readers are cautioned that forward-looking statements are not based on historical facts but instead are based on reasonable assumptions, estimates, analysis and opinions of management of the Corporation at the time they were provided or made, in light of its experience and its perception of trends, current conditions and expected developments, as

well as other factors that management believes to be relevant and reasonable in the circumstances, and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Forward-looking information and statements are not a guarantee of future performance and are based upon a number of estimates and assumptions of management at the date the statements are made including, among other things, assumptions about: development costs remaining consistent with budgets; the Corporation's ability to manage anticipated and unanticipated costs; favorable equity and debt capital markets; the Corporation's ability to raise sufficient capital to advance the business of the Corporation; favorable operating and economic conditions; political and regulatory stability; the Corporation's ability to implement its growth strategies and business plan obtaining and maintaining all required licenses and permits; sustained labor stability; stability in financial and capital goods markets; favourable production levels and costs from the Corporation's operations; the pricing of various cannabis products; the level of demand for cannabis products; the Corporation's ability to keep pace with changing consumer preferences; the availability of third party service providers and other inputs for the Corporation's operations; the Corporations' ability to successfully withstand the economic impact of the COVID-19 pandemic and the Corporation's ability to conduct operations in a safe, efficient and effective manner.

Risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Corporation, as applicable, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information and statements include, but are not limited to, risks and uncertainties related to: business structure risks; legal and regulatory risks inherent in the cannabis industry; financing risks related to additional financing and restricted access to banking; general regulatory and legal risks including risk of civil asset forfeiture, anti-money laundering laws and regulations, lack of access to U.S. bankruptcy protections, heightened scrutiny by regulatory authorities; risk of legal, regulatory or political change, general regulatory and licensing risks, limitations on ownership of licenses, regulatory action and approvals from the Food and Drug Administration and risks of litigation; environmental risks including environmental regulation and unknown environmental risks; general business risks including risks related to COVID-19 pandemic, failure to complete acquisitions, unproven business strategy, service providers, enforceability of contracts, resale of the Common Shares on the CSE, negative cash flow from operating activities, reliance on management, risks inherent in an agricultural business, unfavorable publicity or consumer perception, product liability, product recalls, results of future clinical research, difficulty attracting and retaining personnel, dependence on suppliers, reliance on inputs, limited market data and difficulty to forecast, intellectual property risks, constraints on marketing products, fraudulent or illegal activity by employees, contractors and consultants, information technology systems and cyber-attacks, security breaches, business disruptions or dislocations due to natural disasters, civil unrest, riots, acts of terrorism or otherwise, unionization of employees at the Corporation's facilities, reliance on management services agreements with subsidiaries and affiliates, website accessibility, high bonding and insurance coverage, risks of leverage, future acquisitions or dispositions, management of growth, performance not indicative of future results and financial projections may prove materially inaccurate or incorrect, conflict of interest; tax risks as well as those risk factors discussed under the heading "*Risk Factors*" and elsewhere in this Prospectus, any Prospectus Supplement and the documents incorporated by reference herein and therein and as described from time to time in documents filed by the Corporation with Canadian securities regulatory authorities.

The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose. In particular, but without limiting the foregoing, disclosure in this Prospectus and in the documents incorporated by reference herein as well as statements regarding the Corporation's objectives, plans and goals, including future operating results and economic performance may make reference to or involve forward-looking statements. Although the Corporation believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Further, the assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors that could cause actual performance, achievements, actions, events, results or conditions to be materially different from those projected in the forward-looking information and statements. Many assumptions are based on factors and events that are not within the control of the Corporation and there is no assurance they will prove to be correct. In particular, investors are cautioned that the Corporation's forward-looking statements are subject to the ongoing and developing circumstances related to the COVID-19 pandemic, which may have a material adverse effect on the Corporation's business, operations and future financial results. Certain of the forward-looking statements and other information contained herein concerning the cannabis industry, its medical, adult-use and hemp-based CBD markets, and the general expectations of the Corporation concerning the industry and the Corporation's business and operations are based on estimates prepared by the Corporation using data from publicly available governmental sources as well as from market research and industry analysis and on

assumptions based on data and knowledge of this industry which the Corporation believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While the Corporation is not aware of any misstatement regarding any industry or government data presented herein, the cannabis industry involves risks and uncertainties that are subject to change based on various factors.

Readers are cautioned that the above list of cautionary statements is not exhaustive. A number of factors could cause actual events, performance or results to differ materially from what is projected in the forward-looking statements. You should not place undue reliance on forward-looking statements contained in this Prospectus. Such forward-looking statements are made as at the date of this Prospectus, or in the case of documents incorporated by reference herein, as at the date of each such document. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. The Corporation's forward-looking statements contained in this Prospectus, any Prospectus Supplement and the documents incorporated by reference herein and therein are expressly qualified in their entirety by this cautionary statement. Holders of the Securities should read this entire Prospectus, and each applicable Prospectus Supplement, and consult their own professional advisors to ascertain and assess the tax and legal risks and other aspects associated with holding Securities.

### ADDITIONAL INFORMATION

Copies of reports, statements and other information that the Corporation files with the applicable Canadian provincial and territorial securities regulatory authorities are available electronically on the System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com) under the Corporation's profile.

### DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this Prospectus from documents filed with the securities commissions or similar regulatory authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of the Corporation, at #300 – 1055 West Hastings Street, Vancouver, British-Columbia, Canada, V6E 2E9, (604) 728-4407, and are also available electronically on SEDAR under the Corporation's profile at [www.sedar.com](http://www.sedar.com).

As at the date hereof, the following documents (or the sections or sub-sections thereof set out below), filed with the various securities commissions or similar authorities in each of the provinces of British Columbia, Alberta, Saskatchewan and Ontario, are specifically incorporated by reference into and form an integral part of this Prospectus:

1. the annual information form of the Corporation dated November 18, 2021, for the fiscal year ended July 31, 2021 (the "AIF"), filed on SEDAR on November 29, 2021, with the exception of the section entitled "*Description of the Legal Cannabis Industry – Legal and Regulatory Matters - United States Federal Overview*" beginning at page 32 of the AIF and ending on page 39 just prior to the heading "*Nevada State Level Overview*", which is replaced and superseded by the section entitled "*United States Regulatory Environment - Federal Regulatory Environment*" herein;
2. the audited consolidated financial statements of the Corporation as at and for the years ended July 31, 2021, and 2020 together with the notes attached thereto and the independent auditor's report attached thereto, filed on SEDAR on December 3, 2021 (the "**Annual Financial Statements**");
3. the management's discussion and analysis of the financial conditions and results of operations of the Corporation for the years ended July 31, 2021, and 2020, filed on SEDAR on November 29, 2021;
4. the amended unaudited condensed interim consolidated financial statements of the Corporation as at and for the three and nine months ended April 30, 2022, and 2021, together with the notes attached thereto, filed on SEDAR on October 4, 2022;
5. the management's discussion and analysis of financial conditions and results of operations for the Corporation for the three and nine months ended April 30, 2022, and 2021, filed on SEDAR on June 29, 2022;
6. the material change report of the Corporation dated January 18, 2022, and filed on SEDAR on January 19, 2022, in connection with the Corporation entering into of a binding letter of intent to acquire 100% of the issued and outstanding shares of Day One Beverages, Inc.;

7. the material change report of the Corporation dated February 15, 2022, and filed on SEDAR on February 15, 2022, announcing the appointment of Ranson Shepherd as a director of the Corporation and the resignation of Mark Baynes as director of the Corporation;
8. the material change report of the Corporation dated February 22, 2022, and filed on SEDAR on February 22, 2022, in connection with the sale of real estate assets of the Corporation for total net proceeds of US \$1.27 million;
9. the management information circular of the Corporation dated April 25, 2022, prepared in connection with the annual general and special meeting of the shareholders of the Corporation to be held on June 9, 2022, filed on SEDAR on May 10, 2022, with the exception of the section entitled "*Statement of Executive Compensation*", which is replaced and superseded by the Amended and Restated Statement of Executive Compensation dated October 6, 2022, and filed on SEDAR on October 6, 2022, which is incorporated by reference herein;
10. the management information circular of the Corporation dated May 9, 2022, prepared in connection with an extraordinary meeting of the holders of 10% Senior Unsecured Convertible Debentures due September 14, 2022, to be held on June 9, 2022, filed on SEDAR on May 20, 2022;
11. the material change report of the Corporation dated May 11, 2022, and filed on SEDAR on May 11, 2022, in connection with the termination of the Day One LOI (as defined below);
12. Addendum No. 1 to the management information circular of the Corporation dated June 22, 2022, prepared in connection with an extraordinary meeting of the holders of 10% Senior Unsecured Convertible Debentures due September 14, 2022, to be held on July 13, 2022, filed on SEDAR on June 27, 2022;
13. the management information circular of the Corporation dated July 22, 2022, prepared in connection with an extraordinary meeting of the holders of 10% Senior Unsecured Convertible Debentures due September 14, 2022, to be held on August 24, 2022, filed on SEDAR on July 28, 2022;
14. the amended material change report of the Corporation dated September 23, 2022, in connection with a senior line of credit of up to US\$1,000,000 provided to the Corporation by Paul Rosen; and
15. the material change report dated October 4, 2022, and filed on SEDAR on October 4, 2022, in connection with the sale of a vacant property owned by the Corporation for gross proceeds of US\$2.65 million.

Any document of the type required by National Instrument 44-101 — *Short Form Prospectus Distributions* to be incorporated by reference into a short form prospectus, including any annual information forms, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, annual financial statements and the auditor's report thereon, management's discussion and analysis and information circulars of the Corporation filed by the Corporation with securities commissions or similar authorities in Canada after the date of this Prospectus and prior to the completion or withdrawal of any offering under this Prospectus shall be deemed to be incorporated by reference into this Prospectus.

Upon a new interim financial report and related management's discussion and analysis of the Corporation being filed with the applicable securities' regulatory authorities during the currency of this Prospectus, the previous interim financial report and related management's discussion and analysis of the Corporation most recently filed shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder. Upon new annual financial statements and related management's discussion and analysis of the Corporation being filed with the applicable securities regulatory authorities during the currency of this Prospectus, the previous annual financial statements and related management's discussion and analysis and the previous interim financial report and related management's discussion and analysis of the Corporation most recently filed shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder. Upon a new annual information form of the Corporation being filed with the applicable securities regulatory authorities during the currency of this Prospectus, the following documents shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder: (i) the previous annual information form, if any; (ii) material change reports filed by the Corporation prior to the end of the financial year in respect of which the new annual information form is filed; (iii) business acquisition reports filed by the Corporation for acquisitions completed prior to the beginning of the financial year in respect of which the new annual information form is filed; and (iv) any information circular of the Corporation filed by the Corporation prior to the beginning of the financial year in respect of which the new annual

information form is filed. Upon a new information circular of the Corporation prepared in connection with an annual general meeting of the Corporation being filed with the applicable securities regulatory authorities during the currency of this Prospectus and any previous information circular of the Corporation, if prepared in connection with solely an annual general meeting of the Corporation, shall be deemed no longer to be incorporated by reference into this Prospectus for purposes of future offers and sales of Securities hereunder.

A Prospectus Supplement to this Prospectus containing the specific variable terms in respect of an offering of the Securities will be delivered to purchasers of such Securities together with this Prospectus, unless an exemption from the prospectus delivery requirements has been granted or is otherwise available, and will be deemed to be incorporated by reference into this Prospectus as at the date of such Prospectus Supplement only for the purposes of the offering of the Securities covered by such Prospectus Supplement.

In addition, certain marketing materials (as that term is defined in applicable Canadian securities legislation) may be used in connection with a distribution of Securities under this Prospectus and the applicable Prospectus Supplement(s). Any "template version" of "marketing materials" (as those terms are defined in applicable Canadian securities legislation) pertaining to a distribution of Securities, and filed by the Corporation after the date of the Prospectus Supplement for the distribution and before termination of the distribution of such Securities, will be deemed to be incorporated by reference in that Prospectus Supplement for the purposes of the distribution of Securities to which the Prospectus Supplement pertains.

**Notwithstanding anything herein to the contrary, any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this Prospectus, to the extent that a statement contained herein or in any other subsequently filed document incorporated or deemed to be incorporated by reference herein modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall thereafter neither constitute, nor be deemed to constitute, a part of this Prospectus, except as so modified or superseded.**

The Corporation has not provided or otherwise authorized any other person to provide investors with information other than as contained or incorporated by reference in this Prospectus or any Prospectus Supplement. If an investor is provided with different or inconsistent information, such investor should not rely on it.

## THE CORPORATION

### Corporate Structure

1933 Industries Inc. was incorporated in Alberta as "LeBoldus Capital Inc." under the *Business Corporations Act* (Alberta) on January 29, 2008 and it 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 27, 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 Company's acquisition of a Nevada-licensed cannabis business and a Nevada-licensed hemp-CBD business the Company's principal business changed to the cultivation and production of cannabis products, 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

### Intercorporate Relationships

The table below represents the corporate relationships and 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, and (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 table below, each of the subsidiaries are wholly owned by 1933 Industries Inc.

Subsidiaries	Percentage of Voting Securities Owned	Jurisdiction Where Organized
FN Pharmaceuticals	100%	Nevada
Alternative Medicine Association LC	91%	Nevada
1933 Management Services Inc.	100%	Nevada
Infused MFG LLC	100%	Nevada
AMA Production LLC	100%	Nevada

### Summary Description of the Business

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. FN Pharmaceuticals, AMA Production LLC, Alternative Medicine Association LC (“**AMA**”), 1933 Management Services Inc., Infused MFG LLC (“**Infused**”) are subsidiaries of 1933 Industries Inc.

#### *Alternative Medicine Association*

AMA is a licensed cannabis cultivator, extractor and product manufacturer. AMA’s wholesale cannabis products include premium craft-style cannabis, infused pre-rolls, full spectrum oils, high quality distillates, proprietary blends of terpenes, vaporizer products and boutique concentrates such as shatter, crumble, batter, sugar wax, diamonds, and cured and live resins, sold under the AMA brand and the Company’s premium brand, Level X. AMA cultivates its own cannabis plants and wholesales its products to regulated medical and adult-use dispensaries in the state. With an extensive selection of products, the AMA brand has strong penetration into dispensaries throughout Nevada, where it appeals to a wide range of both medical and recreational consumers. The AMA brand combines craft style cultivation, high quality and competitive pricing, while the Level X brand offers exclusive strains and premium quality. AMA also licenses other brands that contribute to the product offering and complement the AMA brand.

Cannabis flower is cultivated in the Company’s 67,000 square foot, purpose-built, state-of-the-art facility, serving the Las Vegas market. Biomass (remaining parts of the plant that contain THC such as sugar leaf trim and popcorn/small buds) is utilized to produce AMA’s extensive line of concentrates.

#### *Infused MFG (Canna Hemp™)*

Infused develops proprietary formulations for its Canna Hemp™ line of CBD wellness products. It manufactures and distributes products under three distinct brands in a variety of verticals and consumption formats, including: tinctures, lotions, creams, vape pens and cartridges, gummies, and capsules. Infused distributes its branded products through wholesale and retail channels in Nevada and across the US via its e-commerce platform. With over 50 products in its portfolio, Canna Hemp™ delivers a wide range of high-quality product offerings in a variety of formats that meet the changing needs of consumers. High-grade CBD and a proprietary blend of cannabis terpenes formulated for specific effects are key differentiators for the Canna Hemp™ line. Infused expanded its product offerings to include other cannabinoids such as cannabigerol (CBG) and cannabiol (CBN) in its line of tinctures.



More detailed information regarding the business of the Corporation as well as its operations, assets, products and services, and properties can be found in the AIF and other documents incorporated by reference herein, as supplemented by the disclosure herein.

### Business Objectives and Milestones

The Company's primary business objectives are fourfold: (i) to become the most popular and successful wholesale brand in the Nevada wholesale cannabis market, (ii) to continue to grow its Canna Hemp line of CBD wellness products into a top over-the-counter nutraceutical direct-to-customer brand, and (iii) to become profitable and cash flow positive, and (iv) to expand vertically in Nevada through entering into a business arrangement with a dispensary operator, and/or to pursue entry into new markets and opportunities for its current businesses. In order to achieve all of these goals, the Company has identified a number of significant events that must occur, as detailed in the table below:

Description	Timeline	Estimated Cost to Complete
Completing capital improvements to the Company's existing cultivation facility to increase yields	12-18 months	\$3,000,000
Relocate its (i) existing licensed cannabis extraction facility, and (ii) hemp CBD business from the currently leased premises to a Company owned building	12 months	\$4,000,000
Acquire a small dispensary operator or enter into a business combination with a multi-state operator seeking to add the Nevada market to its business or enter new markets through acquisition or merger	12 – 24 months	Up to ~\$35 million

See also "Use of Proceeds".

## RECENT DEVELOPMENTS

### COVID-19 Pandemic

The novel coronavirus commonly referred to as "COVID-19" was identified in December 2019 in Wuhan, China. On January 30, 2020, the World Health Organization declared the outbreak a global health emergency, and on March 11, 2020, the spread of COVID-19 was declared a pandemic by the World Health Organization. On March 13, 2020, the spread of COVID-19 was declared a national emergency by President Donald Trump. The outbreak has spread throughout Europe, the Middle East and North America, causing companies and various international jurisdictions to impose restrictions such as quarantines, business closures and travel restrictions. While these effects are not expected to be permanent, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time.

The Corporation has taken responsible measures with respect to the COVID-19 pandemic to maximize the safety of staff working at its facilities. This included reorganizing physical layouts and adjusting schedules to improve social distancing, implementing health screening measures for employees and applying rigorous standards for personal protective equipment. Certain markets important to the Company, such as Nevada, experienced a greater impact on sales due to reduction in tourism, prolonged business closures and reduced foot traffic in certain locations. The Corporation's facilities continue to be operational, and the Corporation is working closely with the authorities to ensure it is following or exceeding the stated guidelines related to COVID-19.

On February 10, 2022, the Governor of Nevada issued Emergency Declaration Director 052, which removed the mask mandate in the State of Nevada. Currently, all business, including cannabis businesses, are able to operate without restriction. As of the date of this Prospectus, the effects of COVID-19 are not having a material impact on the operations of the Corporation's business.

See "Risk Factors – Risks Related to the COVID-19 Pandemic" for more information.

## Meetings of Debenture Holders

As disclosed in the AIF, the Company had \$3,671,000 aggregate principal amount of 10% senior unsecured convertible debentures outstanding (the “**Convertible Debentures**”). The Convertible Debentures bear interest 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 “**Maturity Date**”). As at September 30, 2022, the balance outstanding including principal and accrued interest was \$4,635,312. 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.

A meeting of both the shareholders and holders of Convertible Debentures was called to be held June 9, 2022. The meeting of the holders of the Convertible Debentures was initially adjourned to July 13, 2022, but not held on that date. The meeting of the holders of Convertible Debentures was called again to be held August 24, 2022.

The Company sought and received approval for the amendments to the Convertible Debentures from the holders at the meetings of the holders of Convertible Debentures held on June 9, 2022, and August 24, 2022, as follows:

- (a) To amend the conversion price applicable to the Debentures from \$0.10 to \$0.05 per share (“**Conversion Price**”);
- (b) to reduce the price per share for interest payments on the Debentures from \$0.10 to \$0.05 per share, if the Company in its sole discretion elects to pay such interest through the issuance of its common shares, (“**Interest Conversion Price**”);
- (c) To amend the price at which the Company may require a forced conversion of the Debentures from \$0.15 to \$0.10 per share, such conversion to be made at the amended Conversion Price of \$0.05 per share; and
- (d) extend the maturity date for the Debentures from September 14, 2022, to December 31, 2023 (the “**Maturity Amendment**”),

(the Conversion Price, the Interest Conversion Price and the Maturity Amendment, collectively, the “**Debenture Amendments**”).

## Recent Transactions

### *Day One Beverages Inc. LOI*

On January 14, 2022, the Corporation signed a binding letter of intent (the “**Day One LOI**”) to acquire Day One Beverages, Inc. (“**Day One**”), a Delaware corporation. Day One is a disruptive beverage company with a portfolio of CBD-infused sparkling water products. The transaction contemplated the Corporation issuing, in aggregate, 55,000,000 common shares and 27,500,000 share purchase warrants to Day One shareholders, exercisable at a price of CAD\$0.07 per share, based on the achievements of certain gross revenue milestones over a period of thirty (30) months following the closing of the transaction.

As part of the transaction, the Corporation entered into a loan agreement with Day One to provide up to US\$500,000 at and interest rate of 10% per annum and due and payable on or before December 31, 2022. The Corporation had the right to convert the principal balance, and any accrued interest, into equity of Day One based on a negotiated valuation of Day One for the purposes of such conversion of US\$4,500,000 (the “**Conversion Right**”).

On May 11, 2022, the Corporation announced that it and Day One had agreed to terminate the Day One LOI after determining that it is in each party’s best interest to continue operating as independent companies. Day One will repay a loan made by 1933 Industries pursuant to the terms of the LOI in the amount of US\$482,571.24 including repayment of

the outstanding principal balance, interest accrued, and other fees accrued (the “**Loan Repayment**”). The Loan Repayment was due and payable in full on or before June 30, 2022. In addition, Day One agreed to reimburse the Corporation for costs incurred of US\$30,051.84, which was due on or before June 9, 2022. While intended to be a full and final settlement of the terms of the LOI, in the event the Loan Repayment was not made by June 30, 2022, the Corporation would be entitled to retain all its rights under the LOI and the initial loan agreement, including the Conversion Right.

On June 28, 2022, the Company received the Loan Repayment and reimbursement for costs incurred as noted above.

#### *Issuance of Securities*

On August 24, 2022, the Company announced the issuance of options to acquire 13,490,000 common shares to its directors, officers, consultants and employees pursuant to the Company’s stock option plan. The options are exercisable for a period of five years at a price of \$0.05 per share.

#### *Licenses*

All of the Company’s licenses required in connection with its cultivation, production and distribution of cannabis have been renewed to either April 30, 2023, or June 30, 2023, as applicable. The Company does not currently cultivate or produce any products for other third party brands through licenses or otherwise.

#### *Line of Credit*

On September 8, 2022, the Corporation obtained a line of credit of up to US\$1,000,000 (the “**Loan**”), from Mr. Paul Rosen, Chairman and CEO of the Corporation. The purpose of the Loan was for general working capital purposes. The Corporation provided Mr. Rosen (the “**Lender**”) a senior first priority security interest in all of its assets as collateral for the Loan. Drawdowns of the Loan must be approved by the Lender and must include the requested amount and the use of the funds and each withdrawal will collectively constitute the “**Principal**”. Interest on the Principal accrues from the date of each drawdown, with an interest rate of 11% per annum accruing until the Principal is repaid in full. The Loan has a one-year term (the “**Maturity Date**”).

The Corporation drew down US\$500,000 concurrently with the execution of the Loan on September 8, 2022. The Principal, together with all accrued interest and fees was due and payable on or before the Maturity Date. A minimum interest charge of 2% of the Principal was payable in the event that the Loan was paid back prior to the Maturity date. The Corporation repaid the sum of US\$500,000 on October 3, 2022, and paid \$10,000 in interest to Mr. Rosen. As of the date hereof, the balance owing under the Loan is nil, however, the Loan is still in place and available to the Corporation for the remainder of the term expiring September 8, 2023.

#### *Sale of Non-core Assets*

On September 29, 2022, the Corporation announced it had completed the sale of a vacant property located in Las Vegas, Nevada, for total gross proceeds of US\$2.65 million, prior to customary closing adjustments. The industrial property located at 5035 Geist Avenue was initially purchased in 2017 for US\$1.8 million. The property included the lot and a vacant building, and its sale does not impact current cultivation activities conducted in the adjacent building. The Company’s cultivation facility encompasses 68,000 sq ft, with approximately 30,000 sq ft of canopy, and can accommodate additional future canopy expansion. Proceeds from the transaction were directed to working capital purposes and to repay funds drawn down under the Loan, in addition to accrued interest.

#### **Summary of Financings from Last Three Fiscal Years**

On March 15, 2019, the Company completed a \$4,500,000 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 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 4, 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 was paid and 40,250 warrants were issued as a finder's fee in connection with the closing. Proceeds from the private placement were utilized for ongoing business development and general working capital.

On November 2, 2020, the Company closed a non-brokered private placement financing consisting of the issuance of 13,920,000 units at a price of US\$0.05 (CDN\$0.066), for gross proceeds of US\$696,000 (CDN\$918,720). Each unit was comprised of one common share of the Company and one transferable share purchase warrant entitling the holder to acquire one common share at an exercise price of US \$0.08 (CDN\$0.106) per unit until November 2, 2023.

On March 4, 2021, the Company closed a bought deal private placement of 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 is 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 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. The Underwriter partially exercised its option (the "**Underwriter's Option**") to purchase 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 were to be used for general working capital and future market opportunities.

## DESCRIPTION OF SHARE CAPITAL OF THE CORPORATION

The Corporations authorized share capital consists of an unlimited number of Common Shares without nominal or par value and an unlimited number of preferred shares issuable in series. As of the date of this Prospectus, 450,699,319 Common Shares were issued and outstanding and nil preferred shares were issued and outstanding of the Corporation.

The following is a summary of the rights, privileges, restrictions and conditions attached to the Common Shares, but does not purport to be complete. Reference should be made to the articles of the Corporation and the full text of their provisions for a complete description thereof, which are available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## DESCRIPTION OF COMMON SHARES

The holders of Common Shares are entitled to receive notice of any meeting of the shareholders of the Corporation and to attend and vote thereat, except those meetings at which only the holders shares of another class or of a particular series are entitled to vote. Each Common Share entitles its holder to one vote. The holders of Common Shares are entitled to receive on a pro-rata basis such dividends as the board of directors may declare out of funds legally available therefor. In the event of the dissolution, liquidation, winding-up or other distribution of the Corporation's assets, such holders are entitled to receive on a pro-rata basis all of assets of the Corporation remaining after payment of all of liabilities. The Common Shares carry no pre-emptive or conversion rights.

## DESCRIPTION OF DEBT SECURITIES

The following sets forth certain general terms and provisions of the Debt Securities. The particular terms and provisions of the Debt Securities offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement, which particular terms and provisions of such Debt Securities may differ from the general terms and provisions described below in some or all respects.

The Corporation may issue Debt Securities, separately or together, with Common Shares, Subscription Receipts, Warrants or Units or any combination thereof, as the case may be. The Debt Securities will be issued in one or more series under an indenture (the "**Indenture**") to be entered into between the Corporation and one or more trustees (the "**Trustee**") that will be named in a Prospectus Supplement for a series of Debt Securities. A copy of the form of the Indenture to be entered into may be filed with the securities commissions or similar authorities in Canada when it is entered into, as required. The description of certain provisions of the Indenture in this section do not purport to be complete and are subject to, and are qualified in their entirety by reference to, the provisions of the Indenture. Terms used in this summary that are not otherwise defined herein have the meaning ascribed to them in the Indenture. The particular terms relating to Debt Securities offered by a Prospectus Supplement will be described in the related Prospectus Supplement. This description may include, but may not be limited to, any of the following, if applicable:

- the specific designation of the Debt Securities; any limit on the aggregate principal amount of the Debt Securities; the date or dates, if any, on which the Debt Securities will mature and the portion (if less than all of the principal amount) of the Debt Securities to be payable upon declaration of acceleration of maturity;
- the rate or rates (whether fixed or variable) at which the Debt Securities will bear interest, if any, the date or dates from which any such interest will accrue and on which any such interest will be payable and the record dates for any interest payable on the Debt Securities that are in registered form;
- the terms and conditions under which the Corporation may be obligated to redeem, repay or purchase the Debt Securities pursuant to any sinking fund or analogous provisions or otherwise;
- the terms and conditions upon which the Corporation may redeem the Debt Securities, in whole or in part, at our option;
- the covenants applicable to the Debt Securities;
- the terms and conditions for any conversion or exchange of the Debt Securities for any other securities;
- the extent and manner, if any, to which payment on or in respect of the Debt Securities of the series will be senior or will be subordinated to the prior payment of other liabilities and obligations of the Corporation;
- whether the Debt Securities will be secured or unsecured;
- whether the Debt Securities will be issuable in registered form or bearer form or both, and, if issuable in bearer form, the restrictions as to the offer, sale and delivery of the Debt Securities which are in bearer form and as to exchanges between registered form and bearer form;
- whether the Debt Securities will be issuable in the form of registered global securities ("**Global Securities**"), and, if so, the identity of the depository for such registered Global Securities;
- the denominations in which registered Debt Securities will be issuable, if other than denominations of \$1,000 and integral multiples of \$1,000 and the denominations in which bearer Debt Securities will be issuable, if other than denominations of \$5,000;
- each office or agency where payments on the Debt Securities will be made and each office or agency where the Debt Securities may be presented for registration of transfer or exchange;
- if other than United States dollars, the currency in which the Debt Securities are denominated or the currency in which the Corporation will make payments on the Debt Securities;
- material Canadian federal income tax consequences and United States federal income tax consequences of owning the Debt Securities;
- any index, formula or other method used to determine the amount of payments of principal of (and premium, if any) or interest, if any, on the Debt Securities; and
- any other terms, conditions, rights or preferences of the Debt Securities which apply solely to the Debt Securities.

If the Corporation denominates the purchase price of any of the Debt Securities in a currency or currencies other than United States dollars or a non-United States dollar unit or units, or if the principal of and any premium and interest on any Debt Securities is payable in a currency or currencies other than United States dollars or a non-United States dollar unit or units, we will provide investors with information on the restrictions, elections, general tax considerations, specific terms and other information with respect to that issue of Debt Securities and such non-United States dollar currency or currencies or non-United States dollar unit or units in the applicable Prospectus Supplement.

Each series of Debt Securities may be issued at various times with different maturity dates, may bear interest at different rates and may otherwise vary.

The terms on which a series of Debt Securities may be convertible into or exchangeable for Common Shares or other securities of the Corporation will be described in the applicable Prospectus Supplement. These terms may include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at the option of the Corporation, and may include provisions pursuant to which the number of Common Shares or other securities to be received by the holders of such series of Debt Securities would be subject to adjustment.

To the extent any Debt Securities are convertible into Common Shares or other securities of the Corporation, prior to such conversion the holders of such Debt Securities will not have any of the rights of holders of the securities into which the Debt Securities are convertible, including the right to receive payments of dividends or the right to vote such underlying securities.

### **DESCRIPTION OF SUBSCRIPTION RECEIPTS**

The following sets forth certain general terms and provisions of the Subscription Receipts. The particular terms and provisions of the Subscription Receipts offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement, which particular terms and provisions of such Subscription Receipts may differ from the general terms and provisions described below in some or all respects.

The Corporation may issue Subscription Receipts that may be exchanged by the holders thereof for Common Shares and/or other Securities of the Corporation upon the satisfaction of certain conditions. The Corporation may offer Subscription Receipts separately or together with Common Shares, Debt Securities, Warrants or Units, as the case may be. The Corporation will issue Subscription Receipts under one or more subscription receipt agreements. Under each subscription receipt agreement, a purchaser of Subscription Receipts will have a contractual right of rescission following the issuance of the Common Shares and/or other Securities of the Corporation, as the case may be, to such purchaser upon exchange of Subscription Receipts, entitling the purchaser to receive the amount paid for the Subscription Receipts upon surrender of the Common Shares and/or other Securities of the Corporation, as the case may be, if this Prospectus, the relevant Prospectus Supplement, and any amendment thereto, contains a misrepresentation, provided such remedy for rescission is exercised within 180 days of the date the Subscription Receipts are issued.

Any Prospectus Supplement will contain the terms and conditions and other information relating to the Subscription Receipts being offered including:

- the number of Subscription Receipts;
- the price at which the Subscription Receipts will be offered and whether the price is payable in instalment;
- any conditions to the exchange of Subscription Receipts into Common Shares, and/or other Securities of the Corporation, as the case may be, and the consequences of such conditions not being satisfied;
- the procedures for the exchange of the Subscription Receipts into Common Shares and/or other Securities of the Corporation, as the case may be;
- the number of Common Shares and/or other Securities of the Corporation, as the case may be, that may be exchanged upon exercise of each Subscription Receipt;
- the designation and terms of any other Securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each Security;
- the dates or periods during which the Subscription Receipts may be exchanged into Common Shares and/or other Securities of the Corporation;

- whether such Subscription Receipts will be listed on any securities exchange;
- any other rights, privileges, restrictions and conditions attaching to the Subscription Receipts; and
- any other specific terms.

Prior to the exchange of their Subscription Receipts, holders of Subscription Receipts will not have any of the rights of holders of the securities issuable on the exchange of the Subscription Receipts.

### **DESCRIPTION OF WARRANTS**

The following sets forth certain general terms and provisions of the Warrants. The particular terms and provisions of the Warrants offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement, which particular terms and provisions of such Warrants may differ from the general terms and provisions described below in some or all respects.

The Corporation may issue Warrants for the purchase of Common Shares and/or other Securities of the Corporation. Warrants may be issued independently or together with Common Shares, Debt Securities and Subscription Receipts offered by any Prospectus Supplement and may be attached to, or separate from, any such offered Securities. Warrants will be issued under one or more warrant agreements entered into between the Corporation and a warrant agent named in the applicable Prospectus Supplement.

Selected provisions of the Warrants and the warrant agreements are summarized below. This summary is not complete. The statements made in this Prospectus relating to any warrant agreement and Warrants to be issued thereunder are summaries of certain anticipated provisions thereof and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable warrant agreement.

Any Prospectus Supplement will contain the terms and other information relating to the Warrants being offered including:

- the exercise price of the Warrants;
- the designation of the Warrants;
- the aggregate number of Warrants offered and the offering price;
- the designation, number and terms of the Common Shares and/or other Securities of the Corporation purchasable upon exercise of the Warrants, and procedures that will result in the adjustment of those numbers;
- the dates or periods during which the Warrants are exercisable;
- the designation and terms of any securities with which the Warrants are issued;
- if the Warrants are issued as a unit with another security, the date on and after which the Warrants and the other security will be separately transferable;
- the currency or currency unit in which the exercise price is denominated;
- any minimum or maximum amount of Warrants that may be exercised at any one time;
- whether such Warrants will be listed on any securities exchange;
- any terms, procedures and limitations relating to the transferability, exchange or exercise of the Warrants;
- any rights, privileges, restrictions and conditions attaching to the Warrants; and
- any other specific terms.

Prior to the exercise of their Warrants, holders of Warrants will not have any of the rights of holders of the Securities subject to the Warrants.

## DESCRIPTION OF UNITS

Units are a security comprised of more than one of the other Securities described in this Prospectus offered together as a "Unit". A Unit is typically issued so the holder thereof is also the holder of each Security included in the Unit. As a result, the holder of a Unit will have the rights and obligations of a holder of each Security comprising the Unit. The agreement, if any, under which a Unit is issued may provide that the Securities comprising the Unit may not be held or transferred separately at any time or at any time before a specified date.

The particular terms and provisions of the Units offered pursuant to this Prospectus will be set forth in the applicable Prospectus Supplement, which particular terms and provisions of such Units may differ from the general terms and provisions described below in some or all respects. This description will include, where applicable: (i) the designation and terms of the Units and of the Securities comprising the Units, including whether and under what circumstances those Securities may be held or transferred separately; (ii) any provisions for the issuance, payment, settlement, transfer or exchange of the Units or of the Securities comprising the Units; (iii) whether the Units will be issued in registered or global form; and (iv) any other material terms and conditions of the Units.

## PLAN OF DISTRIBUTION

The Corporation may sell the Securities, separately or together: (i) to one or more underwriters or dealers; (ii) through one or more agents; or (iii) directly to one or more purchasers. The Prospectus Supplement relating to a particular offering of Securities will describe the terms of such offering of Securities, including: (i) the terms of the Securities to which the Prospectus Supplement relates, including the type of Security being offered, and the method of distribution; (ii) the name or names of any underwriters, dealers, or agents involved in such offering of Securities; (iii) the purchase price of the Securities offered thereby and the proceeds to, if any, and the expenses borne by, if any, the Corporation from the sale of such Securities; (iv) any commission, underwriting discounts and other items constituting compensation payable to underwriters, dealers or agents; and (v) any discounts or concessions allowed or re-allowed or paid to underwriters, dealers or agents.

The Securities may be sold, from time to time in one or more transactions at a fixed price or prices which may be changed or at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices and as set forth in an accompanying Prospectus Supplement. The prices at which the Securities may be offered may vary as between purchasers and during the period of distribution. If, in connection with the offering of Securities at a fixed price or prices, the underwriters have made a bona fide effort to sell all of the Securities at the initial offering price fixed in the applicable Prospectus Supplement, the public offering price may be decreased and thereafter further changed, from time to time, to an amount not greater than the initial public offering price fixed in such Prospectus Supplement, in which case the compensation realized by the underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Securities is less than the gross proceeds paid by the underwriters to the Corporation.

Only underwriters, dealers or agents so named in the Prospectus Supplement are deemed to be underwriters, dealers or agents in connection with the Securities offered thereby. If underwriters are used in an offering, the Securities offered thereby may be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The obligations of the underwriters to purchase Securities will be subject to the conditions precedent agreed upon by the parties and the underwriters will be obligated to purchase all Securities under that offering if any are purchased. If agents are used in an offering, unless otherwise indicated in the applicable Prospectus Supplement, such agents will be acting on a "best efforts" basis for the period of their appointment. Any public offering price and any discounts or concessions allowed or re-allowed or paid to underwriters, dealers or agents may be changed from time to time.

Underwriters, dealers and agents who participate in the distribution of Securities may be entitled under agreements to be entered into with the Corporation to indemnification by the Corporation against certain liabilities, including liabilities under securities legislation, or to contribution with respect to payments which such underwriters, dealers or agents may be required to make in respect thereof. Such underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for, the Corporation in the ordinary course of business.

Any offering of Debt Securities, Subscription Receipts, Warrants or Units will be a new issue of securities with no established trading market. **Unless otherwise specified in the applicable Prospectus Supplement, the Debt Securities, Subscription Receipts, Warrants or Units will not be listed on any securities exchange.** Unless otherwise specified in the applicable Prospectus Supplement, there is no market through which the Debt Securities, Subscription Receipts, Warrants or Units may be sold, and purchasers may not be able to resell Debt Securities, Subscription Receipts, Warrants or Units purchased under this Prospectus or any Prospectus Supplement. This may affect the pricing of the Debt



Securities, Subscription Receipts, Warrants or Units in the secondary market, the transparency and availability of trading prices, the liquidity of the Securities, and the extent of issuer regulation. Subject to applicable laws, certain dealers may make a market in these Securities, but will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given that any dealer will make a market in these Securities or as to the liquidity of the trading market, if any, for these Securities.

In connection with any offering of the Securities, subject to applicable laws the underwriters or agents may over-allot or effect transactions that stabilize or maintain the market price of the offered Securities at a level above that which might otherwise prevail on the open market. Such transactions, if commenced, may be interrupted or discontinued at any time.

### **PRIOR SALES**

Information in respect of prior sales of the Common Shares or other Securities distributed under this Prospectus and for securities that are convertible or exchangeable into Common Shares or such other Securities within the previous 12-month period will be provided, as required, in a Prospectus Supplement with respect to the issuance of the Common Shares or other Securities pursuant to such Prospectus Supplement.

### **TRADING PRICE AND VOLUME**

The Common Shares are currently listed on the CSE under the trading symbol "TGIF" and quoted on the OTCQB under the trading symbol "TGIF". The trading prices and volumes of the Common Shares will be provided, as required, in each Prospectus Supplement.

### **DIVIDENDS**

The Corporation has never paid any dividends on its Common Shares. While the Corporation is not restricted from paying dividends other than pursuant to certain solvency tests prescribed under the *Business Corporations Act* (British Columbia), the Corporation does not intend to pay dividends on any of its Common Shares in the foreseeable future.

### **USE OF PROCEEDS**

The net proceeds from the sale of Securities by the Corporation and the proposed use of those proceeds will be set forth in the applicable Prospectus Supplement relating to that offering of Securities. Among other potential uses, the net proceeds from the sale of Securities by the Corporation may be used for general corporate purposes (including funding any eventual negative cash flow from operating activities, ongoing operations and/or working capital requirements), to repay indebtedness outstanding from time to time, capital programs and potential future acquisitions. See also "*The Corporation – Business Objectives and Milestones*". Each applicable Prospectus Supplement will contain specific information concerning the use of proceeds from that sale of Securities by the Corporation. To date, there have been no variances between the disclosure of how the Company would use the proceeds from any of the financings it has conducted and how the proceeds were actually used.

During the fiscal year ended July 31, 2021, the Corporation has had negative cash flow from operating activities. Each applicable Prospectus Supplement will contain specific information concerning whether, and if so, to what extent, the Corporation will use the proceeds of the distribution to fund any anticipated negative cash flow from operating activities in future periods. See "*Risk Factors – Negative Cash Flow from Operating Activities*".

### **EARNINGS COVERAGE RATIO**

The applicable Prospectus Supplement will provide, as required by applicable Canadian securities laws, the earnings coverage ratios with respect to the issuance of Securities pursuant to such Prospectus Supplement.

### **CONSOLIDATED CAPITALIZATION**

The applicable Prospectus Supplement will describe any material change in, and the effect of such material change on, the share and loan capitalization of the Corporation that will result from the issuance of Securities pursuant to such Prospectus Supplement.

Since April 30, 2022, the date of the Corporation's most recently filed consolidated financial statements, the following changes occurred in the Corporation's share capitalization on a consolidated basis: (a) on July 9 and August 24, 2022, the Corporation obtained approval from the holders of its Convertible Debentures to extend the maturity date from September 14, 2022, to December 31, 2023, and to reduce the applicable conversion prices to \$0.05 per share; (b) on September 8, 2022, the Corporation entered into a line of credit (the "**Loan**" as defined herein) for up to US\$1,000,000 and

simultaneously drew down US\$500,000; (c) on October 3, 2022, the amount of US\$500,000 together with interest in the amount of US\$10,000 was repaid by the Corporation and the balance of the Loan is nil as at the date hereof; and (d) the Loan remains in place and the funds are available to the Corporation until September 8, 2023. See "*Recent Developments – Recent Transactions*".

## UNITED STATES REGULATORY ENVIRONMENT

### Federal Regulatory Environment

#### *Overview of Federal Cannabis Law*

Under U.S. federal law, marijuana is currently a Schedule I drug. The CSA has five different tiers or schedules. A Schedule I drug means the Drug Enforcement Agency (“**DEA**”) considers it to have a high potential for abuse, no accepted medical treatment, and lack of accepted safety for the use of it even under medical supervision. Other Schedule I drugs are heroin, LSD, and ecstasy. The Company believes the CSA categorization as a Schedule I drug is not reflective of the medicinal properties of marijuana or the public perception thereof, and numerous studies show cannabis is not able to be abused in the same way as other Schedule I drugs, has medicinal properties, and can be safely administered. Additionally, while studies show cannabis is less harmful than alcohol,<sup>1</sup> alcohol is not classified under the CSA.

The U.S. federal position is also not necessarily consistent with democratic approval of marijuana at the state government level in the United States. Unlike in Canada, which has federal legislation uniformly governing the cultivation, distribution, sale, and possession of marijuana under the *Cannabis Act* (Canada), marijuana is largely regulated at the state level in the United States. State laws regulating cannabis conflict with the CSA, which makes cannabis use and possession federally illegal. Although certain states and territories of the U.S. authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts. Although the Company’s activities are compliant with applicable state and local laws, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law nor provide a defense to federal criminal charges that may be brought against the Company. The Supremacy Clause of the U.S. Constitution establishes that the U.S. Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and state law, federal law shall apply.

#### *U.S. Federal Approach to Enforcement of Cannabis Laws*

Nonetheless, well over half of the U.S. states have now legalized adult-use and/or medical marijuana. As more and more states legalized medical and/or adult-use marijuana, the federal government sought to provide guidance to enforcement agencies and banking institutions with the introduction of the DOJ Memorandum drafted by former Deputy Attorney General James Michael Cole in 2013 (the “**Cole Memo**”) and the Department of the Treasury Financial Crimes Enforcement Network (“**FinCEN**”) guidance in 2014.

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

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<sup>1</sup> See Lachenmeier, DW & Rehm, J. (2015). Comparative risk assessment of alcohol, tobacco, cannabis and other illicit drugs using the margin of exposure approach. *Scientific Reports*, 5, 8126. doi: 10.1038/srep08126; Thomas, G & Davis, C. (2009). Cannabis, Tobacco and Alcohol Use in Canada: Comparing risks of harm and costs to society. *Visions Journal*, 5. Retrieved from [http://www.heretohelp.bc.ca/sites/default/files/visions\\_cannabis.pdf](http://www.heretohelp.bc.ca/sites/default/files/visions_cannabis.pdf); Jacobus et al. (2009). White matter integrity in adolescents with histories of marijuana use and binge drinking. *Neurotoxicology and Teratology*, 31, 349-355. <https://doi.org/10.1016/j.ntt.2009.07.006>; Could smoking pot cut risk of head, neck cancer? (2009 August 25). Retrieved from <https://www.reuters.com/article/us-smoking-pot/could-smoking-pot-cut-risk-of-head-neck-cancer-idUSTRE5705DC20090825>; Watson, SJ, Benson JA Jr. & Joy, JE. (2000). Marijuana and medicine: assessing the science base: a summary of the 1999 Institute of Medicine report. *Arch Gen Psychiatry Review*, 57, 547-552. Retrieved from <https://www.ncbi.nlm.nih.gov/pubmed/10839332>; Hoaken, Peter N.S. & Stewart, Sherry H. (2003). Drugs of abuse and the elicitation of human aggressive behavior. *Addictive Behaviours*, 28, 1533-1554. Retrieved from <http://www.ukcia.org/research/AggressiveBehavior.pdf>; and Fals-Steward, W., Golden, J. & Schumacher, JA. (2003). Intimate partner violence and substance use: a longitudinal day-to-day examination. *Addictive Behaviors*, 28, 1555-1574. Retrieved from <https://www.ncbi.nlm.nih.gov/pubmed/14656545>.

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

Following the inauguration of President Donald Trump, a Task Force on Crime Reduction and Public Safety was established through an executive order by the President of the U.S. in February 2017. The Task Force was to deliver its recommendations by July 27, 2017, however, instead U.S. Attorney General Jeff Sessions simply stated he would continue to review the recommendations.<sup>2</sup> To date, its recommendations have not been made public.

In March 2017, U.S. Attorney General Jeff Sessions acknowledged the validity of the Cole Memo and noted limited federal resources due to the appropriations restrictions.

However, in January 2018, U.S. Attorney General, Jeff Sessions, issued a memorandum (the “**Sessions Memo**”), which rescinded the Cole Memo and thereby created a vacuum of guidance for enforcement agencies and the DOJ. As an industry best practice, despite the recent rescission of the Cole Memo, the Company continues to do the following to ensure compliance with the guidance provided by the Cole Memo:

1. ensure the operations of its subsidiaries (or third parties, in the jurisdictions where the Company conducts its business as an ancillary services provider) are compliant with all licensing requirements that are set forth with regards to cannabis operation by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions. To this end, the Company retains appropriately experienced legal counsel to conduct the necessary due diligence to ensure compliance of such operations with all applicable regulations;
2. the activities relating to cannabis business adhere to the scope of the licensing obtained – for example, in the states where only medical cannabis is permitted, the products are only sold to patients who hold the necessary documentation to permit the possession of the cannabis; and in the states where cannabis is permitted for adult recreational use, the products are only sold to individuals who meet the requisite age requirements;
3. in working with licensed operators, such as cultivators and manufacturers in due diligence on the policies and procedures to ensure that the products are not distributed to minors. Additionally, The Company employs professional consultants to investigate any past license violations and ensure that the business has not been involved in these types of violations;
4. the Company only works through licensed operators, which must pass a range of requirements, adhere to strict business practice standards, and be subjected to strict regulatory oversight with sufficient checks and balances to ensure that no revenue is distributed to criminal enterprises, gangs, and cartels.

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<sup>2</sup> Press Release, U.S. Department of Justice, Statement by Attorney General Jeff Sessions on Recommendations From the Task Force on Crime Reduction and Public Safety (July 26, 2017), <https://www.justice.gov/opa/pr/statement-attorney-general-jeff-sessions-recommendations-task-force-crime-reduction-and>.

Furthermore, as a part of its due diligence, The Company retains professional consultants to vet the ownership of such cannabis businesses to ensure that no profits or revenues are used for the benefit of criminal enterprises;

5. as a part of its compliance audit, the Company also ensures that the licensed operators have an adequate inventory tracking system and necessary procedures in place to ensure that such compliance system is effective in tracking inventory. This is done to ensure that there is no diversion of cannabis or cannabis products into the states where cannabis is not permitted by state law, or cross the state lines in general;
6. the Company conducts the necessary review of financial records and where appropriate retains professional third-party consultants to do so, to ensure that the state-authorized cannabis business activity is not used as a cover or pretext for trafficking of other illegal drugs or engaged in other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;
7. the Company conducts background checks to ensure that the principals and management of the licensed operators are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis;
8. the Company conducts reviews of activities of the cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of licensed premises (including the cases where such possession permitted by regulation – e.g., transfer of products between licensed premises). These activities are done to ensure that no licensed operators possess or use cannabis on federal property or engage in manufacturing or cultivation of cannabis on federal lands; and
9. the Company conducts reviews of products and product packaging to ensure that the products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Trump. Following Mr. Sessions' resignation, Matthew Whitaker began serving as Acting U.S. Attorney General. On February 14, 2018, President Trump's nominee William Barr was confirmed as the Attorney General. Mr. Barr served as Attorney General in the presidential administration of George H.W. Bush from 1991 to 1993. Mr. Barr has stated that as Attorney General, he does not intend to prosecute parties, who have complied with state law in reliance on the Cole Memo. Mr. Barr also stated the need for more legal growers of marijuana for research and is acknowledging that the bill legalizing hemp had broad implications for sale of cannabis products. Further, prior to Mr. Barr's confirmation, he stated that he had not considered or determined whether further administrative guidance would be appropriate, or what such guidance might look like. However, he did note that if confirmed, he would give the matter careful consideration (collectively the "**Barr Comments**").

Mr. Barr was seen as having a more hands-off approach on state regulation and enforcement on cannabis. Mr. Barr said low-level marijuana crimes would not be a focus of the Justice Department. On the other hand, he did launch investigations into legal cannabis companies on antitrust grounds.

While President Biden has not yet released clear direction on the federal path forward for federal legalization, his choice for Vice President Kamala Harris and Xavier Becerra for Secretary of Health and Human Services have public track records of supporting medical marijuana programs.

In January 2021, President Biden nominated Merrick Garland as Attorney General of the U.S. He was confirmed by the Senate in March 2021. In his confirmation testimony, Mr. Garland made clear that he would de-prioritize enforcement of low-level marijuana crimes such as possession, and he suggested that federal reforms are closely tied to the larger issue of social justice for minorities. Mr. Garland said it doesn't make much sense to him to spend "limited resources" pursuing nonviolent criminals such as those guilty of marijuana possession.

"This is a question of the prioritization of our resources and prosecutorial discretion," Garland said at his confirmation hearing on February 22, 2021. It does not seem to me a useful use of limited resources that we have, to be pursuing

prosecutions in states that have legalized and that are regulating the use of marijuana, either medically or otherwise. I don't think that's a useful use."

"I do think we need to be sure there are no end-runs around the state laws that criminal enterprises are doing. So that kind of enforcement should be continued. But I don't think it's a good use of our resources, where states have already authorized. That only confuses people, obviously, within the state."

Mr. Garland reiterated the above sentiment during a May 4, 2021, House Appropriations subcommittee meeting, stating that "[t]he department's view on marijuana use is that enforcement against use is not a good use of our resources" in states where such use is legal.

However, unlike in the case of the Sessions Memo or the Cole Memo that preceded it, the DOJ under Garland has not issued new guidance related to cannabis enforcement.

### *Implications for Financial Institutions and Access by Third Parties*

Due to the CSA categorization of marijuana as a Schedule I drug, U.S. federal law makes it illegal for financial institutions that depend on the Federal Reserve's money transfer system to take any proceeds from marijuana sales as deposits. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses under the *United States Currency and Foreign Transactions Reporting Act of 1970* (the "**Bank Secrecy Act**"). 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 or conspiracy.

On January 16, 2018, a coalition of 19 attorney generals from various states, including: Ms. Lisa Madigan, Illinois Attorney General; Xavier Becerra, California Attorney General; Eric T. Schneiderman, New York Attorney General (who has since been replaced by Barbara Underwood); and Josh Shapiro, Pennsylvania Attorney General released a joint statement urging Congress to advance legislation that would allow states with legalized medical or recreational marijuana to participate in the banking system. Banks and other depository institutions are currently hindered by federal law from providing financial services to marijuana businesses, even in states where those businesses are regulated. In February 2019, the House Financial Services subcommittee took up proposed legislation, the *Secure and Fair Enforcement Banking Act of 2019* (the "**SAFE Banking Act**"), that would protect banks and their employees from punishment for providing services to cannabis businesses that are legal on a state level. First hearings for the SAFE Banking Act occurred in February 2019 and the bill was introduced in Congress in March 2019.

On September 25, 2019, the Secure and Fair Enforcement Banking Act of 2019 was passed by the U.S. House of Representatives in a 321 to 103 vote. The SAFE Banking Act would permanently protect state-chartered banks and credit unions that service state-legal cannabis companies from being penalized by federal regulators. On May 17, 2020, the legislative language of the SAFE Banking Act was included in a stimulus bill known as The Health and Economic Recovery Omnibus Emergency Solutions Act (the "**HEROES Act**"). The HEROES Act was passed by the U.S. House of Representatives in a 208 to 199 vote.

The SAFE Banking Act was reintroduced in the House (HR 1996) with 107 cosponsors. The bill was largely similar to what passed out of the House in 2020 and provides a SAFE Harbor to depository institutions who provide financial services to cannabis businesses. There were some minor changes to the bill related to the hemp provisions that provide hemp companies access to a full suite of financial protections, including those related to security exchanges, however, these provisions are currently limited to hemp. HR 1996 passed the House in April 2021. The SAFE Banking Act's introduction in the Senate occurred on March 23, 2021, with bipartisan support led by Jeff Merkley of Oregon (D) and Steve Daines of Montana (R). However, the U.S. Senate has declined to bring the SAFE Banking Act up for a vote due to pending comprehensive federal reform legislation from Senate Majority Leader Chuck Schumer (D-NY), Senate Finance Committee Chair Ron Wyden (D-OR), and Senate Judiciary Criminal Justice and Counterterrorism Subcommittee Chair Cory Booker (D-NJ). The provisions of the SAFE Banking Act were offered by Congressman Earl Perlmutter (D-CO) as an amendment to the House version of the Defense Authorization Act ("**NDAA/H.R. 4350**"), which passed the House on September 23, 2021. The Senate's version of the bill did not include the SAFE Banking Act and the compromised NDAA language also failed to include the SAFE Banking Act. Since then, on January 28, 2022, Rep. Ed Perlmutter (D-CO) filed an amendment to the America COMPETES Act, HR 4521, ("**COMPETES Act**"), which incorporated the SAFE Banking language into the bill. The COMPETES Act relates to high-tech investment

incentives and programs, directs funding to create a strategic transformer reserve, facilitate domestic manufacturing, and test critical electric grid equipment to reduce vulnerability and increase resiliency in the event of severe damage to the electrical grid. On February 1, 2022, Rep. Perlmutter's SAFE Banking Act amendment was considered by the House Rules Committee and included in the COMPETES Act. The COMPETES Act, with SAFE included, passed the House on February 4, 2022, the sixth time the House has passed the measure. Previously, the Senate passed its version of the bill, the U.S. Innovation and Competition Act, which did not include SAFE.

While there has been no change in U.S. federal banking laws to account for the trend towards legalizing medical and recreational marijuana by U.S. states, FinCEN has issued guidance advising prosecutors of money laundering and other financial crimes not to focus their enforcement efforts on banks and other financial institutions that serve marijuana-related businesses, so long as that business is legal in their state and none of the federal enforcement priorities are being violated (such as keeping marijuana away from children and out of the hands of organized crime). The FinCEN guidance also clarifies how financial institutions can provide services to marijuana-related businesses consistent with their Bank Secrecy Act obligations, including thorough customer due diligence, but makes it clear that they are doing so at their own risk.

The customer due diligence steps include:

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

Due to the fear by financial institutions of being implicated in or prosecuted for money laundering, marijuana businesses are often forced into becoming "cash-only" businesses. As banks and other financial institutions in the U.S. are generally unwilling to risk a potential violation of federal law without guaranteed immunity from prosecution, most refuse to provide any kind of services to marijuana businesses. Despite the attempt by FinCEN to legitimize marijuana banking, in practice its guidance has not made banks much more willing to provide services to marijuana businesses. This is because, as described above, the current law does not guarantee banks immunity from prosecution, and it also requires banks and other financial institutions to undertake time-consuming and costly due diligence on each marijuana business they take on as a customer. Recently, some banks that have been servicing marijuana businesses have been closing accounts operated by marijuana businesses and are now refusing to open accounts for new marijuana businesses for the reasons enumerated above.

The few credit unions who have agreed to work with marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Since the federal government could change the banking laws as it relates to marijuana businesses at any time and without notice, these credit unions must keep sufficient cash on hand to be able to return the full value of all deposits from marijuana businesses in a single day, while also servicing the need of their other customers.

The U.S. Treasury Department has publicly stated they were not informed of Attorney General Jeff Sessions' desire to rescind the Cole Memo and do not have a desire to rescind the FinCEN guidance for financial institutions. Multiple legislators believe that Sessions' rescinding of the Cole Memo invites an opportunity for Congress to pass more definitive protections for marijuana businesses in states with legal marijuana programs during this Congress.

#### *Persistence of Mitigating Factors for Conflicting Federal and State Cannabis Law*

On December 20, 2014, President Obama signed into law a federal spending bill with a Congressional appropriation rider for the year ending September 30, 2015, providing that “None of the funds made available to the DOJ pursuant to the 2015 *Consolidated and Further Continuing Appropriations Act* may be used to prevent certain states, including Arizona, Nevada, and California, from implementing their own laws that have authorized the use, distribution, possession, or cultivation of medical marijuana” (the “**Rohrabacher-Blumenauer Amendment**”). This limitation was carried over for the year ending September 30, 2016. The DOJ addressed the impact of the Rohrabacher-Blumenauer Amendment in a memorandum dated February 27, 2015, which was released to the public in August 2015. That memorandum took the position that the Rohrabacher-Blumenauer Amendment does not bar the use of funds for civil and criminal enforcement “consistent with the existing DOJ guidance.” The DOJ’s interpretation appears to have been firmly rejected by the U.S. Court of Appeals for the Ninth Circuit (which includes federal court districts of Arizona and Nevada). In a decision dated August 16, 2016, the Court specifically ruled that the Rohrabacher-Blumenauer Amendment prohibited the use of DOJ funds for “conduct completely authorized by State law” *United States v McIntosh*, No.15-10117, 2016 WL 4363168, at 32 (9th Cir. Aug. 16, 2016). Both Congress and marijuana-related businesses recognize that guidance is not law and thus have worked to continually renew the Rohrabacher-Blumenauer Amendment since 2014. This amendment prevents the DOJ from using congressional funds to prosecute cannabis businesses in states that have medical marijuana laws and programs. In 2017, Senator Patrick Leahy (D-Vermont) introduced a similar amendment to H.R.1625 – a vehicle for the *Consolidated Appropriations Act* of 2018), preventing federal prosecutors from using federal funds to impede the implementation of medical cannabis laws enacted at the state level, subject to Congress restoring such funding, being the Leahy Amendment. The Leahy Amendment was set to expire with the 2018 fiscal year on September 30, 2018, but was effectively extended to December 21, 2018, when Congress passed the Continuing Appropriations Act, 2019 in September 2018. On December 22, 2018, the U.S. Congress failed to pass an omnibus appropriations bill for fiscal year 2019, causing a shutdown of the federal government. Currently, the Leahy Amendment is no longer in effect. Notwithstanding, since 2015, Congress has used a rider provision in the Consolidated Appropriations Acts (currently the Joyce Amendment, but previously called the Rohrabacher-Blumenauer Amendment, and before that the Rohrabacher-Farr Amendment) to prevent the federal government from using congressionally appropriated funds to enforce federal cannabis laws against state-compliant actors in jurisdictions that have legalized medical cannabis and cannabis-related activities. Additionally, the Blumenauer-McClintock-Norton-Lee amendment, which would bar the use of federal funds for the Department of Justice to prosecute those who are in compliance with their state-legal or tribal-legal adult-use marijuana laws was under consideration. However, the Blumenauer-McClintock-Norton-Lee amendment was not included in the appropriations bill that was passed by Congress on March 10, 2022, and signed by President Biden on March 15, 2022. The protections offered by the Joyce Amendment continue to be in effect.

The resolution of this issue could have a material adverse effect on the Company’s business, revenues, operating results, and financial condition as well as the Company’s reputation.

#### *Current Trends in Federal Cannabis Policy*

Since 2014, Congress has made immense strides in marijuana policy. The bipartisan Congressional Cannabis Caucus launched in 2017 and is co-chaired by Representatives Earl Blumenauer (OR-03) and Barbara Lee (D-CA). The group is “dedicated to developing policy reforms that bridge the gap between federal laws banning marijuana and the laws in an ever-growing number of states that have legalized it for medical or recreational purposes.” Additionally, each year more Representatives and Senators sign on and co-sponsor marijuana legalization bills.

On November 20, 2019, the House Judiciary Committee approved the Marijuana Opportunity Reinvestment and Expungement Act of 2019 (the “**MORE Act**”) by a 24 to 10 vote. The MORE Act would decriminalize and remove Cannabis as a Schedule I controlled substance. In April 2021, days before a floor vote in the U.S. House of Representatives, the MORE Act was stalled due a late added amendment. While the main thrust of the bill remained intact, including a tax to fund programs to repair the harms of the drug war, a provision was added requiring a federal permit to operate a “cannabis enterprise” along with restrictions that could ban people with prior marijuana convictions

from being eligible. Advocates viewed the amendment as problematic as it allows for federal cannabis permits to be suspended or revoked if a person has a past or current legal proceeding related to a felony violation of any state or federal cannabis law. Following the Judiciary Committee approval in November, the MORE Act was passed by the House by a vote of 228-164 in December 2020. The bill did not advance in the Senate.

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

On July 14, 2021, Leader Schumer and Senators Wyden and Booker released the Cannabis Administration and Opportunity Act, a 163-page discussion draft bill, alongside a 30-page summary document, which effectively deschedules cannabis, provides restorative justice for past cannabis-related convictions, and establishes a federal regulatory system within the FDA for cannabis products. In addition to the aforementioned provisions, the bill also maintained state authority to establish individual cannabis policies and establishes a federal tax on cannabis products. Stakeholder comments were submitted to the Sponsoring Offices on or before the requested deadline of September 1, 2021. It is unclear when the bill will be filed.

The MORE Act was reintroduced by Representative Nadler (D-NY 10<sup>th</sup> Dist.) in May 2021. On September 30, 2021, the MORE Act passed the House Judiciary Committee by a vote of 26-15. Two Republicans joined all of the committee's Democratic members to move the bill forward. The next step was for the legislation to once again move to the House floor for consideration.

On November 15, 2021, Rep. Nancy Mace (R-SC) introduced the States Reform Act. The bill, if enacted, would legalize cannabis at the federal level by removing from the CSA and provide some deference to the states and state programs. The bill has yet to be put before the House for consideration.

On Friday, April 1, 2022, the U.S. House of Representative passed the latest iteration of the MORE Act. While passing with a vote of 220-204, the MORE Act is not viewed as having substantial bipartisan support, with only 3 Republican representatives backing the bill. To be passed into law the bill will need approval of the Senate. While its repeated adoption by Congress is seen as an encouraging sign, it is not expected to pass in its current iteration.

President Joe Biden issued a proclamation on October 6, 2022, granting pardon to all US citizens who, prior to the date of the proclamation, were charged or convicted of simple possession of marijuana in violation of the CSA. The pardon is only applicable to federal charges and not to any person who is or was incarcerated for breaking state law. However, President Biden did encourage state governors to follow his lead and issue pardons for simple possession of marijuana. President Biden also stated that he was directing the Attorney General and the Health and Human Services Secretary to initiate an administrative review of how marijuana is currently scheduled under federal law. While the scope of President Biden's pardon is limited, it brings the issue of federal decriminalization and legalization to the forefront of federal policy discussion.

#### *Adverse Tax Implications*

An additional challenge to marijuana-related businesses is that the provisions of the Internal Revenue Code of 1986 as amended (the "U.S. Tax Code"), Section 280E, are being applied by the United States International Revenue Service ("IRS") to businesses operating in the medical and adult-use marijuana industry. Section 280E of the U.S. Tax Code prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective U.S. federal tax rates than similar companies in other industries. The effective tax rate on a marijuana business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they would otherwise be.

On December 20, 2018, Congress passed the Farm Bill, which became law in the U.S. and included the legalization of hemp, which changed how hemp and hemp-derived products like CBD are regulated in the U.S. The United States Department of Agriculture is the industry's primary regulator.

Local, state, and U.S. federal medical marijuana laws and regulations are broad in scope and subject to evolving interpretations, which could require the Company to incur substantial costs associated with compliance or alter certain aspects of its business plan. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a material adverse effect on certain aspects of its planned



operations. In addition, it is possible that regulations may be enacted in the future that will be directly applicable to certain aspects of the Company's business. No prediction can be made as to the nature of any future laws, regulations, interpretations, or applications, nor can it be determined what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

Unless and until Congress amends the CSA with respect to medical marijuana, as to the timing or scope of any such potential amendments there can be no assurance, there is a risk that U.S. federal authorities may enforce current U.S. federal law, and we may be deemed to be producing, cultivating, or dispensing marijuana in violation of U.S. federal law with respect to the Company's current or proposed business operations, or the Company may be deemed to be facilitating the sale or distribution of drug paraphernalia in violation of U.S. federal law. A change in the U.S. federal government's approach to begin more active enforcement of cannabis may adversely affect our revenues and profits. The risk of strict enforcement of the CSA in light of Congressional activity, judicial holdings, and stated U.S. federal policy remains uncertain.

Laws and regulations affecting the medical marijuana industry are constantly changing, which could detrimentally affect the proposed operations of the Corporation. The risk of U.S. federal enforcement and other risks associated with the Corporation's business are described in the "Risk Factors" section below.

#### *Overview of Federal CBD and Hemp Derived Regulations*

The Company sells its Canna Hemp™ line of CBD and other cannabinoid wellness products. While such products come from the same plant genus and species, hemp and marijuana are legally distinct and are generally regulated, respectively, by three separate overarching bodies of law: section 7606 of the *Agricultural Act of 2014* (the "**2014 Farm Bill**"); the *Agricultural Improvement Act of 2018* (the "**2018 Farm Bill**"); and the CSA. Hemp, by legal definition, contains 0.3% THC or less on a dry weight basis, which is not a sufficient level to create an intoxicating effect like marijuana.

All hemp-based products produced and sold by the Company constitute "Hemp" under the 2018 Farm Bill as well as under the laws of the states in which the Company manufactures such hemp-based products. The 2018 Farm Bill permanently removed hemp and the THC in Hemp from the purview of the CSA. Hemp is now deemed an agricultural commodity, and is no longer classified as a controlled substance, like marijuana. Furthermore, by defining hemp to include its derivatives, extracts, and cannabinoids,<sup>3</sup> Congress explicitly removed popular hemp products, such as hemp-derived CBD, from the purview of the CSA. Accordingly, the DEA no longer has regulatory authority to interfere with the interstate commerce of hemp products, so long as the THC level is at or below 0.3% on a dry weight basis. The 2018 Farm Bill also provides that state and Native American tribal governments may impose separate restrictions or requirements on hemp growth and the sale of hemp products. However, they cannot interfere with the interstate transportation or shipment of lawfully produced hemp or hemp products. As a result of the 2018 Farm Bill, federal law now provides that CBD derived from hemp is not a controlled substance under the CSA; however, CBD derived from hemp could still be considered a controlled substance under applicable state law. States take varying approaches to regulating the production and sale of hemp and hemp-derived CBD. While some states explicitly authorize and regulate the production and sale of hemp-derived CBD or otherwise provide legal protection for authorized individuals to engage in commercial hemp activities, other states maintain outdated drug laws that do not distinguish between marijuana and hemp and/or hemp-derived CBD, resulting in hemp being classified as a controlled substance under certain state laws. In these states, sale of CBD, notwithstanding origin, is either restricted to state medical or adult-use marijuana program licensees or remains otherwise unlawful under state criminal laws. Additionally, a number of states prohibit the sale of ingestible CBD products based on the FDA's position that, pursuant to the Food, Drug, and Cosmetic Act (the "**FD&C Act**"), it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, regardless of whether the substances are hemp-derived. See "*State by State Regulatory Environment*" below.

The Company obtains all its materials for its hemp-based products primarily from producers in Nevada, and has obtained some materials from Colorado. The Company's activities related to the production, marketing and sale of its products comply with the 2014 Farm Bill and/or 2018 Farm Bill, as currently applicable to its operations. However, certain government agencies (such as the FDA) and certain federal officials have challenged the scope of permissible commercial activity. FDA representatives, for example, have stated they believe that producers of CBD-based products,

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<sup>3</sup> Agriculture Improvement Act of 2018 (section 10113) (defining hemp under the Agricultural Marketing Act of 1946, 7. U.S.C. 1621).

including the Company, produce and sell their products in violation of the FD&C Act. Similarly, the Company's marketing activities fall within the FDA's jurisdiction. In addition, the FDA is currently evaluating whether, and how, hemp-based CBD dietary supplements and food can be lawfully sold in the U.S. Over the past several years, FDA has issued numerous warning letters to companies marketing CBD products with disease claims. The letters reiterate the agency's position that CBD cannot be added to food and dietary supplements and targeted companies whose products violated the FD&C Act's prohibition against: i) marketing CBD as or in a dietary supplement, human and animal food, or food additives; ii) marketing a dietary supplement, human and animal food, or cosmetic with disease or drug claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent disease); iii) including a substance in human or animal food when that substance is not generally recognized as safe ("GRAS"); and iv) selling products that are misbranded due to their failure to include "adequate directions for use by a layperson".

The FDA's enforcement against the sale and marketing of CBD products has to date been limited to the issuance of warning letters, although enforcement could include civil and criminal penalties. This matter is still unresolved as at the date of this Prospectus, as indicated by the FDA's March 5, 2020, statement and Congressional report whereby the agency reaffirmed that it is actively evaluating a risk-based enforcement policy and rulemaking to permit the use of CBD in dietary supplements. While the Company disagrees with the position of the FDA, there is risk that this agency could take enforcement or regulatory actions against the Company.

Legal barriers applicable to, and risks associated with, selling hemp-derived CBD products result from a number of factors, including the fact that hemp and marijuana are both derived from the *Cannabis sativa L.* plant, the rapidly changing patchwork of state laws governing hemp and hemp-derived CBD, and the FDA's position that it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, i.e. the IND Preclusion described below (see "*FDA Regulation*" below). However, the removal of hemp and its extracts, including CBD, from the CSA pursuant to the 2018 Farm Bill, and the FDA's indication that it is considering using its authority to issue a regulation that could specifically allow hemp-derived ingredients in foods and supplements, are major developments toward resolving these regulatory barriers. Stakeholders take different positions regarding the scope of legal activity in light of the interplay of federal and state law, and in light of developments, such as the 2018 Farm Bill, the September 30, 2017, decision of the World Anti-Doping Agency to drop CBD from its list of prohibited substances, and the World Health Organization Expert Committee on Drug Dependence preliminary report finding that CBD is safe, well-tolerated and non-addictive.<sup>4</sup>

On May 28, 2020, the FDA submitted draft guidance to the White House Office of Management and Budget relating to research considerations for cannabis and cannabis-derived compounds. While we do not believe this guidance changes the regulatory landscape, we do believe it indicates the FDA's continued direction in considering the safety and advancement of cannabis-derived compounds. In a trade press article regarding this guidance, FDA confirmed that it is "working toward a goal of providing additional guidance and [has] made substantial progress," while also reiterating the need to obtain additional data on the safety, effectiveness, and quality of CBD products.<sup>5</sup> At the request of the Biden Administration, the FDA has since withdrawn its draft guidance. The FDA has not yet indicated whether or when a new guidance document will be submitted.

The foregoing is an abbreviated overview of the Company's position on the legality of the Company's operations in the United States. Additional background and a more thorough analysis of applicable U.S. regulatory regimes is set out in greater detail below. The varying regulations with respect to the treatment of Hemp from state to state continue to evolve.

### FDA Regulation

FDA regulations are complex and constantly evolving. The description below provides a current summary of certain FDA regulations that purport to regulate various aspects of products that are intended for human or animal consumption.

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<sup>4</sup> World Health Organization Expert Committee on Drug Dependence, Cannabidiol (CBD) Pre-Review Report, November 10, 2017.

<sup>5</sup> <https://www.foodnavigator-usa.com/Article/2020/06/05/FDA-says-it-s-made-substantial-progress-on-CBD-regs-CV-Sciences-weighs-in-on-food-vs-pharma-path-man-sues-CBD-firm-after-failing-drugs-test>.

## Overview

The governing food and drug law in the United States is the FD&C Act. One purpose of the FD&C Act is to forbid the movement in interstate commerce of adulterated and misbranded food, drugs, devices and cosmetics.<sup>6</sup> The FDA is charged with protecting the integrity of the U.S. food supply and its cosmetic products, as well as monitoring the safety and efficacy of drugs, biological products, and almost any compound intended for human or animal consumption, among other areas.<sup>7</sup>

To date, the FDA has approved one product containing CBD as a drug, and has taken the position that CBD cannot be marketed as a dietary supplement or added to food because a product containing CBD was approved as a drug and substantial clinical trials studying CBD as a new drug were made public prior to the marketing of any food or dietary supplements containing CBD. Accordingly, dietary supplements or food are precluded from containing CBD as an ingredient. This potentially creates additional barriers to lawfully selling certain CBD and CBD-based products in the U.S.

Notably, the FDA does not impose the same restrictions on the use of CBD in cosmetic products. The agency states on its website that "[c]ertain cosmetic ingredients are prohibited or restricted by regulation, but currently that is not the case for any cannabis or cannabis-derived ingredients."<sup>8</sup> However the FDA further notes that such products must comply with all applicable legal requirements including the adulteration and misbranding provisions of the FD&C Act specific to cosmetic products.

Further, the Dietary Supplement Health and Education Act (the "**DSHEA**"), an amendment to the federal FD&C Act, established a framework governing the composition, safety, labeling, manufacturing and marketing of dietary supplements in the United States. Generally, under DSHEA, dietary ingredients marketed in the United States prior to October 15, 1994, may be used in dietary supplements without notifying the FDA. "New" dietary ingredients (i.e. dietary ingredients "not marketed in the United States before October 15, 1994") must be the subject of a new dietary ingredient notification submitted to the FDA unless the ingredient has been "present in the food supply as an article used for food" and is not "chemically altered." Any new dietary ingredient notification must provide the FDA with evidence of a "history of use or other evidence of safety" establishing that use of the dietary ingredient "will reasonably be expected to be safe."

To legally market an over-the-counter (OTC) drug product, the FD&C Act and FDA regulations promulgated under its authority require FDA approval of a New Drug Application ("**NDA**") that includes substantial evidence of effectiveness based on adequate and well-controlled studies, or an Abbreviated New Drug Application ("**ANDA**"). Alternatively, an OTC drug product may be marketed without an FDA approved NDA or ANDA if the drug product is manufactured in compliance with an OTC drug regulation, referred to as a monograph, which has been established for that therapeutic class of drug. The OTC drug monographs identify permissible active ingredients, labeling, and claims. OTC monographs generally do not specify inactive ingredients that may be used in the manufacture of OTC drugs. OTC drugs marketed in compliance with a final monograph are generally recognized and safe and effective ("**GRASE**"), and are exempt from premarket approval requirements.

The FDA has also issued "tentative final monographs," which are proposed rules that, when finalized, will become final monographs. The FDA allows drugs that comply with the tentative final monograph to be marketed under its enforcement discretion policy. Once the monograph is finalized for that therapeutic class of drug, marketing must then conform to the final monograph or the OTC drug products will be considered adulterated or misbranded under the FD&C Act and marketing will be prohibited.

Inactive ingredients do not require individual approval by the FDA. The FDA evaluates an inactive ingredient within the context of an NDA. After approval of the NDA, the FDA will list the inactive ingredients in the approved drug product in the FDA's Inactive Ingredient Database. Based on the listings in this Database, the FDA has not approved an NDA for a new drug containing CBD as an inactive ingredient. FDA does not list OTC inactive ingredients in the Inactive Ingredient Database for OTC drug products manufactured and marketed in accordance with an OTC monograph. It is the drug

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<sup>6</sup> Ky. Rev. Stat. §§ 260.850-.858.

<sup>7</sup> U.S. Food and Drug Administration, Mission Statement: <http://www.fda.gov/downloads/aboutfda/reportsmanualsforms/reports/budgetreports/ucm298331.pdf>.

<sup>8</sup> U.S. Food and Drug Administration, "FDA Regulation of Cannabis and Cannabis-Derived Products, Including Cannabidiol (CBD), Questions and Answers," <https://www.fda.gov/news-events/public-health-focus/fda-regulation-cannabis-and-cannabis-derived-products-including-cannabidiol-cbd#qandas>.

manufacturer's responsibility to ensure the suitability and safety of the inactive ingredients in its OTC monographed drug products.

It is the Company's position that its Canna Hemp™ line of CBD and other cannabinoid wellness products are not prohibited by the FDA and are otherwise in compliance with the FD&C Act. The Company does not currently market or sell any CBD products that constitute dietary supplements as specified by the FDA. Further, the Company does not currently market or sell products that are considered OTC drug products. The Company's products currently only use inactive ingredients, as regulated by the FDA.

Hemp-derived products may be legally sold and marketed in the United States where they contain hemp lawfully imported from another country or cultivated pursuant to a state agricultural program, provided the product complies with the FD&C Act and applicable state and federal law. Textiles, fibers, and certain food and cosmetic products containing hemp seed and hemp seed oils can be lawfully sold in compliance with federal law. Products containing CBD, however, may only be legal to the extent they are lawfully sourced, sold in a state where state law does not prohibit such sale and where they are compliant with the FD&C Act. Compliance with the FD&C Act may prove difficult for most ingestible CBD products, while other hemp-based products such as hemp or CBD topicals, hemp seed, hemp seed oils and certain non-ingestible products may be able to achieve compliance with FD&C Act more easily. See "*Risk Factors*".

#### *FDA's Approach to CBD and Enforcement Action*

The FDA has taken the position that CBD cannot be marketed as a dietary supplement because it has been the subject of investigation as a new drug (such restrictions referred to as "**IND Preclusion**"). According to the FDA, the submission of the IND application for Epidiolex by Greenwich Biosciences, the U.S. subsidiary of London-based GW Pharmaceuticals, preceded the sales and marketing of CBD as a dietary supplement. Excluded from the DSHEA definition of a dietary supplement is: "an article authorized for investigation as a new drug, antibiotic, or biological for which substantial clinical investigations have been instituted and for which the existence of such investigations has been made public, which was not before such approval, certification, licensing, or authorization marketed as a dietary supplement or as a food unless the Secretary, in the Secretary's discretion, has issued a comment, finding that the article would be lawful under this Act." It is the FDA's interpretation of the IND Preclusion that the preclusion date is the date in which it authorized the drug for investigation; however, the Company believes there are significant arguments against this position in that all conditions of the statute must be met before the IND Preclusion applies, including (1) authorization for investigation as a new drug; (2) substantial clinical investigations must be instituted; (3) such substantial investigations must be made public; and (4) all of the above must occur prior to the marketing of the article as a food or dietary supplement. As discussed below, the FDA takes the position that CBD was not marketed in a food or dietary supplement prior to the conditions for the IND Preclusion rendering effective. The Company disagrees with this position and further believes that CBD was sold in interstate commerce prior to the publication of substantial clinical investigations. Thus, the Company takes the position that the IND Preclusion does not apply. As of the date of this Prospectus, the Company has not, and does not intend to file an investigational drug application with the FDA, concerning any of its products that contain CBD derived from Hemp.

There is inherent risk in marketing a product containing CBD, whether as an active or inactive ingredient, due to the drug approval awarded to Epidiolex and the FDA's existing guidance on the introduction of CBD in the food supply and marketing hemp as a dietary supplement. FDA policies and regulations may change from time to time, requiring formulation, packaging, or labeling changes or requiring the submission of an NDA for a drug product containing any amount of CBD. Although some states have passed laws that permit certain CBD products despite contrary federal laws, such state laws may also change. The Company cannot predict whether new federal or state regulations or legislation affecting the use of CBD in OTC products or any of the activities of the Company will be enacted or what effect any regulation or legislation would have on the Company's business.

On March 22, 2021, the FDA issued a news release announcing the issuance of warning letters to two companies for selling OTC products labeled as containing CBD, alleging that the products are illegally marketed unapproved drugs.<sup>9</sup> The letters explain that, because CBD has known pharmacological effects on humans, with demonstrated risks, it cannot be legally marketed as an inactive ingredient in OTC drug products that are not reviewed and approved by the FDA. In the letters, the FDA also alleged the products are misbranded due to the prominent featuring of CBD on the labeling,

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<sup>9</sup> U.S. Food and Drug Administration, "FDA Warns Companies Illegally Selling Over-the-Counter CBD Products for Pain Relief," <https://www.fda.gov/news-events/press-announcements/fda-warns-companies-illegally-selling-over-counter-cbd-products-pain-relief>.

which the Agency stated is misleading because it presents the CBD inactive ingredients “in a manner that creates an impression of value greater than their true functional role in the formulation.”<sup>10</sup>

There is no assurance that the position taken by the Company that its products are exempt from the requirements for an NDA or ANDA pre-market approval will not, in the future, be challenged by the FDA, which could result in material adverse effects to the Company and its business.

The FD&C Act provides that a substance added to food is unsafe unless the substance is GRAS. The FDA has not recognized CBD as GRAS for human consumption, although certain hemp seed derivatives may be considered GRAS.<sup>11</sup> <sup>12</sup> Further research is needed to determine if other cannabinoids would be considered GRAS or what steps would be necessary for them to be recognized as GRAS. In the meantime, stakeholders including the Company are collecting data to pursue a GRAS determination for CBD, as the FDA has indicated it cannot conclude that CBD is GRAS due to the current lack of information to support this determination. Enforcement of this prohibition on the use of CBD in food has been generally limited to products making unlawful drug or disease claims, with the FDA also asserting its position that CBD is not a permissible food or dietary supplement ingredient. The Company's products containing CBD derived from Hemp are not marketed or sold using claims that the products are intended to diagnose, mitigate, treat, cure or prevent disease in violation of the FD&C Act.

On December 20, 2018, the FDA released a statement from former Commissioner Scott Gottlieb, which restated FDA's current position, opining that products containing CBD ingredients may not be sold as food or dietary supplements. The statement also contained, for the first time, a clear path toward FDA's permanent and formal acceptance of hemp-derived CBD as a food or dietary supplement ingredient. For the first time, the FDA has indicated that it is considering using its authority to issue a regulation that will specifically allow hemp-derived CBD in foods and supplements.

Statements from the FDA issued in July 2019 made clear that the FDA is “[p]aving the way for regulatory clarity[.]”<sup>13</sup> FDA “is committed to evaluating the regulatory frameworks for non-drug uses, including products marketed as foods and dietary supplements[.]”<sup>14</sup> Importantly, FDA “recognize[s] that there is substantial public interest in marketing and accessing CBD in food, including dietary supplements . . . [and that] [t]he statutory provisions that currently prohibit marketing CBD in these forms also allow the FDA to issue a regulation creating an exception, and some stakeholders have asked that the FDA consider issuing such a regulation to allow for the marketing of CBD in conventional foods or as a dietary supplement, or both.”<sup>15</sup>

As it continues down this path, the FDA is “[l]istening to and learning from stakeholders[.]”<sup>16</sup> The FDA held a public hearing on May 31, 2019, to obtain scientific data and information about the safety, manufacturing, product quality, marketing, labeling, and sale of products containing Cannabis or Cannabis-derived compounds. Numerous hemp industry stakeholders and consumers shared their perspectives, including Jonathan Miller, regulatory counsel to the Company and General Counsel for the U.S. Hemp Roundtable (“Roundtable”) – the industry's leading national business advocacy association and for which the Company serves as a key member. Since then, Miller met with the FDA's CBD Working Group, which is reviewing the use of CBD as a food and dietary supplement ingredient.

On July 16, 2019, the FDA issued a consumer update on its efforts to address “unanswered questions about the science, safety, and quality of products containing CBD” through the feedback from the May 31, 2019 hearing and information and data gathered through a public docket.<sup>17</sup> Specifically, the FDA noted concerns regarding potential liver toxicity, questions about cumulative exposure to CBD over time, the effects of CBD on special populations (e.g., the elderly, children, adolescents, pregnant and lactating women), and the safety of CBD use in animals including pets. On October 16, 2019, the FDA issued another consumer update cautioning against the use of CBD, THC, and marijuana during pregnancy or while breastfeeding due to the current lack of comprehensive research studying the effects of CBD on the developing fetus, pregnant mother, or breastfed baby.<sup>18</sup> On November 25, 2019, the FDA provided another consumer

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<sup>10</sup> See 21 CFR 201.10(c)(4), Drugs; statement of ingredients.

<sup>11</sup> 21 CFR § 170.30(b), (c), 170.3(f).

<sup>12</sup> 21 CFR § 1308.35 (a)(2). The DEA's final rule on legal hemp materials and products specifically excludes materials used for human consumption.

<sup>13</sup> Amy Abernathy, M.D., Ph.D., et al., “FDA is Committed to Sound, Science-based Policy on CBD,” fda.gov, <https://www.fda.gov/news-events/fda-voices-perspectives-fda-leadership-and-experts/fda-committed-sound-science-based-policy-cbd>.

<sup>14</sup> Id.

<sup>15</sup> Id.

<sup>16</sup> Id.

<sup>17</sup> Id.

<sup>18</sup> U.S. Food and Drug Administration, “What You Should Know About Using Cannabis, Including CBD, When Pregnant or Breastfeeding,” <https://www.fda.gov/consumers/consumer-updates/what-you-should-know-about-using-cannabis-including-cbd-when-pregnant-or-breastfeeding>.

update stating there is limited available information about CBD, including about its effects on the body.<sup>19</sup> The FDA also sent another round of warning letters to companies marketing CBD products with disease claims. Some letters were jointly issued by the Federal Trade Commission ("FTC"). In addition, the agency reiterated its position that CBD cannot be added to food and dietary supplements and stated that it is "not aware of any basis to conclude that CBD is GRAS [Generally Recognized as Safe] among qualified experts for its use in human or animal food."<sup>20</sup> As stated above, the letters targeted companies whose products violated the FD&C Act's prohibition against: (i) marketing CBD as or in a dietary supplement, human and animal food, or food additives; (ii) marketing a dietary supplement, human and animal food, or cosmetic with disease or drug claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent disease); (iii) including a substance in human or animal food when that substance is not GRAS; and (iv) selling products that are misbranded due to their failure to include "adequate directions for use by a layperson".

On March 5, 2020, former FDA Commissioner Dr. Stephen M. Hahn issued a statement on the FDA's work related to CBD products. The statement makes clear that the FDA will continue its work to educate the public on CBD's perceived safety risks and that the FDA is taking steps to solicit additional public feedback, data, and research on the science, safety, and quality of CBD products. These new steps include re-opening the public docket so that FDA can obtain additional scientific data on CBD, which will include a process by which confidential and proprietary information can be shared with the FDA and kept protected. Additionally, former Commissioner Hahn's statement reiterates that the FDA will continue to monitor and police the CBD products marketplace and is evaluating the issuance of a risk-based enforcement policy that provides greater transparency and clarity regarding factors the FDA intends to consider in prioritizing enforcement decisions.

It is clear from former Commissioner Hahn's statements, and also from FDA's prior guidance, that topical cosmetic products do not have the same regulatory scrutiny as ingestible products that contain CBD. For instance, while FDA notes that topical products must comply with all applicable legal requirements including the adulteration and misbranding provisions of the FD&C Act specific to cosmetic products, FDA's website states that "[c]ertain cosmetic ingredients are prohibited or restricted by regulation, but currently that is not the case for any cannabis or cannabis-derived ingredients." Additionally, former Commissioner Hahn had positively suggested that the effects of CBD may differ depending on the route of administration.

Much of former Commissioner Hahn's statement was also included in the FDA's congressionally mandated report on CBD, which was also submitted on March 5, 2020. On the issue of topical products, the report makes clear that "[c]osmetic ingredients do not generally require premarket approval (with the exception that most color additives do require premarket approval)" and that "it is possible that some individual products containing CBD fall outside of FDA's jurisdiction." The report confirms that the FDA is actively considering pathways to allow the marketing of CBD as a dietary supplement, which may include notice-and-comment rulemaking and interim risk-based enforcement policies. The report signals the FDA's continued interest in certain aspects of CBD, including effects from sustained use, effects from different methods of exposure, and effects on the developing brain and on the unborn child and breastfed newborn. The report acknowledges that the FDA is receiving inquiries about whether "full spectrum" and "broad spectrum" Hemp products can currently be marketed and sold, but the FDA has not yet answered the question conclusively. Largely, the report does little to address the current regulatory ambiguity for CBD and does not set a timeline for agency action, but it does signal the FDA's clear interest in a pathway for the use of CBD in dietary supplements. Further to this point, former Commissioner Hahn had publicly stated that it would be a "fool's game" for the FDA to pull CBD products from the market entirely, as their use is already widespread.

In January 2021, the FDA issued an update entitled "Better Data for a Better Understanding of the Use and Safety Profile of Cannabidiol (CBD) Products."<sup>21</sup> In the statement, the FDA acknowledges the rapid increase and interest in the availability of CBD and other products derived from cannabis, and calls for "real-world" data on the use and safety of CBD. The call acknowledges the FDA's current gaps in understanding of the safety profile of CBD, which may be addressed through obtaining real-world data and help build a robust evidentiary foundation to inform public health decisions regarding CBD. The FDA further notes that it is continuing to "evaluate the regulatory frameworks that apply to certain cannabis-derived products that are intended for non-drug uses, including whether any new FDA regulations may be warranted." However, it is unclear whether the new FDA Commissioner appointed under the Biden Administration will take the same stance on CBD as former Commissioners Hahn and Gottlieb.

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<sup>19</sup> U.S. Food and Drug Administration, "FDA warns 15 companies for illegally selling various products containing cannabidiol as agency details safety concerns," <https://www.fda.gov/news-events/press-announcements/fda-warns-15-companies-illegally-selling-various-products-containing-cannabidiol-agency-details>.

<sup>20</sup> Id.

<sup>21</sup> See <https://www.fda.gov/news-events/fda-voices/better-data-better-understanding-use-and-safety-profile-cannabidiol-cbd-products>.

Despite the position taken by the FDA that there is no evidence of CBD being marketed as a food or dietary supplement prior to drug trials being commenced and made public, the Company believes there is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether cannabinoids including CBD were present in the food supply and marketed prior to October 15, 1994 or whether such inclusion of cannabinoids is otherwise permitted by the FDA as dietary ingredients, notwithstanding that cannabis and the cannabinoids contained therein have been consumed as food by human beings for centuries even if not specifically marketed as CBD or other cannabinoids. As a result, the Company believes the federal legality regarding the distribution and sale of hemp-based products intended for human consumption must be considered on a case-by-case basis and that the uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that Hemp products containing CBD or other cannabinoids were not present in the food supply, marketed prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient, may have a materially adverse effect upon the Company and its business. Moreover, if the FDA were to enforce the IND Preclusion based on its interpretation of the legislation, this would have a materially adverse effect upon the Company and its business.

Except as described above and elsewhere in this Prospectus, the Company is in compliance with applicable law and has not received any citations or notices of violation which may have an impact on the Company's Licenses, business activities or operations.

#### Future Uncertainty of Legal Status

There remain a number of considerations and uncertainties regarding the cultivation, sourcing, production and distribution of hemp and products containing hemp derivatives. Applicable laws and regulations remain subject to change as there are different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses with respect to the treatment of the importation of derivatives from exempted portions of the Cannabis plant and the scope of operation of 2018 Farm Bill-compliant hemp programs. These different federal, state and local agency interpretations, as discussed above, touch on the regulation of cannabinoids by the FDA and the extent to which imported derivatives, and/or 2018 Farm Bill-compliant cultivators and processors may engage in interstate commerce, whether under federal and/or state law. The uncertainties likely cannot be resolved without further federal and state legislation, regulation or a definitive judicial interpretation of existing legislation and rules.

Approximately 10 to 15% of the Company's assets, liabilities and operations are exposed to U.S. hemp-related activities.

#### **State by State Regulatory Environment**

The following sections describe the legal and regulatory landscape in the states in which the Corporation currently operates its cannabis and hemp derived businesses.

**Nonetheless, for the reasons described above and the risks further described under "Risk Factors" herein and in the AIF, there are significant risks associated with the businesses of the Corporation. Readers are strongly encouraged to carefully read all of the risk factors contained herein, in the AIF and other documents incorporated or deemed to be incorporated by reference herein, the applicable Prospectus Supplement and the documents incorporated or deemed to be incorporated by reference therein.**

#### *Relevant State Cannabis Regulations*

##### Nevada Operations

Nevada's medical cannabis program was introduced in June 2013 when the legislature passed SB374, legalizing the medicinal use of cannabis for certified patients. The first dispensaries opened to patients in August 2015.

In November 2016, Nevada voters approved Question 2 with 55% of the vote, legalizing adult-use cannabis in the state. Adult-use sales launched under an "early-start" program on July 1, 2018. This market is divided into five classes of licenses: dispensaries, cultivators, distribution, product manufacturing, and testing. Licenses are tied to the locality in which they were awarded. In December 2018, the Nevada Department of Taxation, the agency which oversees the cannabis program, issued 61 new dispensary licenses. As of June 30, 2020, there were approximately 68 operational dispensaries, 134 operational cultivators, and 96 operational processors. Effective March 20, 2020, Governor Steve Sisolak ordered the closure of all dispensary storefronts, meaning that, through the duration of the order, all cannabis sales in Nevada were made via delivery. On May 1, 2020, Governor Sisolak permitted cannabis dispensaries to offer curbside

pickup, in addition to delivery. On May 9, 2020, Governor Sisolak permitted the resumption of in-store sales, with certain health and safety limits, as part of the governor's plan to reopen the state.

Extracted oils, edibles, and flower products are permitted. Wholesaling is permitted.

In 2017, the Corporation agreed to acquire AMA, which operates a 10,000 square foot licensed indoor cannabis cultivation and production facility, operating in Las Vegas, Nevada. The business is licensed for both medical and adult-use sales. The AMA transactions closed in July 2017.

In 2017, concurrent with the acquisition of AMA, the Corporation agreed to acquire Infused, which is a licensed hemp-CBD product manufacturer and distributor. The transaction closed in July 2017.

AMA's business involves the growing of cannabis indoors for personal medicinal and recreational use and the production of premium, boutique concentrates for the Nevada market. As of the date of this Prospectus, AMA currently holds the following cannabis licenses: (i) medical and adult-use cultivation, (ii) medical and adult-use production, and (iii) medical & adult-use distribution. AMA operates a 67,000 square foot cannabis cultivation facility operating in Las Vegas, Nevada, a 10,000 square foot extraction and production cannabis facility, and a cannabis distribution business.

As of the date of this Prospectus, Infused currently operates a 15,000 square foot hemp-CBD product manufacturing facility, operating in Las Vegas, Nevada. The Company, through Infused, is focused on developing, formulating, and producing CBD products and brands for retail sale and use in jurisdictions where permitted by law and regulation in the US.

#### *State Hemp/CBD Regulations*

Under both the 2014 and the 2018 Farm Bills, states retain significant discretion and authority to adopt their own regulatory regimes governing hemp production. As a result, regulation of hemp and the products derived therefrom will likely continue to vary on a state-by-state basis even after the 2018 Farm Bill is fully implemented. In addition, states take varying approaches to regulating the production and sale of hemp-derived CBD. While some states explicitly authorize and regulate the production and sale of hemp-derived CBD or otherwise provide legal protection for authorized individuals to engage in commercial hemp activities, other states maintain outdated drug laws that do not distinguish between marijuana, hemp and/or hemp-derived CBD, resulting in hemp being classified as a controlled substance under state law. In these states, sale of CBD, notwithstanding origin, is either restricted to state medical or adult-use marijuana program licensees or remains otherwise unlawful under state criminal laws. Additionally, a number of states prohibit the sale of ingestible CBD products based on FDA's position that, pursuant to the FD&C Act, it is unlawful to introduce food containing added CBD or THC into interstate commerce, or to market CBD or THC products as, or in, dietary supplements, regardless of whether the substances are hemp-derived. For example, Kentucky, Tennessee, Indiana, Florida, Missouri, Colorado, and dozens of other states have passed laws that explicitly exempt hemp extracts such as CBD from legal prohibitions applicable to controlled substances such as marijuana. Since the Company's products are specifically excepted from the CSA by the 2018 Farm Bill's definition of Hemp, it is the Company's position that such state laws would specifically except them as well.

Accordingly, the sale of CBD at the retail level in most U.S. states remains a gray area of the law which continues to evolve. An increasing number of states – including Alaska, Florida, Iowa, New York, Texas, Utah, Virginia, and West Virginia – have enacted laws that explicitly permit the sale of CBD. Several of these states also place additional requirements on the sale of CBD products such as specific testing, labeling, or registration of products. The Company has chosen to sell its products in all fifty states, understanding that there is a risk of state or local law enforcement or regulatory action, and that state-specific requirements may vary significantly. Moreover, the Company has limited access to information regarding or control over which states its products may transit through between production and sale.

#### **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The applicable Prospectus Supplement may describe certain Canadian federal income tax considerations generally applicable to investors described therein of purchasing, holding and disposing of the applicable Securities, including, in the case of an investor who is not a resident of Canada, Canadian non-resident withholding tax considerations. Investors should read the tax discussion in any Prospectus Supplement with respect to a particular offering and consult their own tax advisors with respect to their own particular circumstances.



## **RISK FACTORS**

Before making an investment decision, prospective purchasers of Securities should carefully consider the information and risk factors described in this Prospectus and the documents incorporated by reference herein (including subsequently filed documents incorporated by reference herein), including the applicable Prospectus Supplement. Additional risk factors relating to a specific offering of Securities may be described in the applicable Prospectus Supplement. Some of the risk factors described herein and in the documents incorporated by reference herein (including subsequently filed documents incorporated by reference herein), including the applicable Prospectus Supplement are interrelated and, consequently, investors should treat such risk factors as a whole. If any event arising from these risks occurs, the Corporation's business, prospects, financial condition, results of operations and cash flows, and an investment in the Securities, could be materially adversely affected. Additional risks and uncertainties of which the Corporation is currently unaware or that are unknown or that the Corporation currently deems to be immaterial could have a material adverse effect on the Corporation's business, prospects, financial condition, results of operations and cash flows. The Corporation cannot provide any assurances that it will successfully address any or all of these risks.

### **Risks Related to the Securities of the Corporation**

#### **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 constituting 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.

#### **Negative Cash Flow from Operating Activities**

During the twelve months ended July 31, 2021, the Corporation sustained net losses from operations and had negative cash flow from operating activities of approximately CAD \$4.6 million. Although the Corporation expects to generate positive cash flows in future periods, due to the rapid growth in the Corporation and its continued expansion, the Corporation cannot guarantee that it will have a positive cash flow status in the future and may incur significant losses in the future. In addition, the Corporation expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Corporation's revenues do not increase to offset its costs and operating expenses or if the Corporation is unable to raise financing to fund capital or operating expenditures or acquisitions, it could limit its growth and may have a material adverse effect upon the Corporation's business, financial condition, cash flows, results of operations or prospects. To the extent the Corporation has negative cash flow from operating activities in any future periods, certain of the proceeds from an offering of Securities by the Corporation may be used to fund such negative cash flow from operating activities.

## **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".

## **No Market for Certain Securities**

There is currently no market through which the Securities, other than the Common Shares, may be sold and, unless otherwise specified in the applicable Prospectus Supplement, the Debt Securities, Subscription Receipts, Warrants or Units will not be listed on any securities or stock exchange or any automated dealer quotation system. As a consequence, purchasers may not be able to resell such Debt Securities, Subscription Receipts, Warrants or Units purchased under this Prospectus. This may affect the pricing of the Securities, other than the Common Shares, in the secondary market, the transparency and availability of trading prices, the liquidity of these securities and the extent of issuer regulation. There can be no assurance that an active trading market for the Securities, other than the Common Shares, will develop or, if developed, that any such market, including for the Common Shares, will be sustained.

## **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.

### **Loss of Foreign Private Issuer Status**

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

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

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

A "holder of record" is defined by Rule 12g5-1 under the U.S. Exchange Act. Generally speaking, the holder identified on the record of security holders is considered as the record holder. In December 2016, the SEC issued a Compliance and Disclosure Interpretation to clarify that issuers with multiple classes of voting stock carrying different voting rights may, for the purposes of calculating compliance with this threshold, examine either (i) the combined voting power of its share classes, or (ii) the number of voting securities, in each case held of record by U.S. residents. Based on this interpretation, each issued and outstanding Common Share is counted as one voting security for the purposes of determining the 50 percent U.S. resident threshold and the Corporation is a "Foreign Private Issuer". Should the SEC's guidance and interpretation change, it is likely the Corporation will lose its Foreign Private Issuer status.

### **Restrictions on the Use Of Rule 144 By Former Shell Companies May Affect Shareholders Ability to Sell Their Shares Publicly**

Our history as a shell company could impact a shareholders ability to use Rule 144. Historically, the SEC staff had taken the position that Rule 144 is not available for the resale of securities initially issued by companies that are, or previously were, blank check companies, like us. The SEC has codified and expanded this position by prohibiting the use of Rule 144 for resale of securities issued by any shell companies (other than business combination related shell companies) or any issuer that has been at any time previously a shell company. The SEC has provided an important exception to this

prohibition if certain conditions are met. As a result, it is likely if we do not meet those conditions then, resale may not be available pursuant to Rule 144.

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

At the time this Prospectus 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.

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

### **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 Prospectus 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. See also "*Risk Factors – Additional Risks Related to the Cannabis Business*".

### **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 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 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 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. See also "*Risk Factors – Additional Risks Related to the Cannabis Business*".

### **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.

### **Failure to Complete Acquisitions**

The Corporation may complete certain transactions in the future. Acquisitions are subject to a number of customary closing conditions including in certain instances, regulatory approval and may not close for a variety of reasons including if the closing conditions are not satisfied or waived, some of which may not be within the control of the Corporation. In addition, even if these transactions were to be completed, they may not close on terms or within the timing currently expected. If one or more of these transactions do not close or are completed pursuant to terms or timelines different than expected, it could have an adverse effect on the Corporation's future capital plans and require the Corporation to reallocate funds.

### **Future Acquisitions or Dispositions**

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Corporation's ongoing business; (ii) distraction of management; (iii) the Corporation may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; and (v) loss or reduction of control over certain of the Corporation's assets. Additionally, the Corporation may issue additional Common Shares in material amounts which would dilute the current Shareholders' holdings in the Corporation or indirect holdings in the Corporation.

The presence of one or more material liabilities of an acquired company that are unknown to the Corporation at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of the Corporation. A strategic transaction may result in a significant change in the nature of the Corporation's business, operations and strategy. In addition, the Corporation may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Corporation's operations.

## **Acquisition Integration and Management of Growth**

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation 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 Corporation to deal with this growth may have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

Achievement of the benefits of acquisitions depends in part on successfully consolidating functions, integrating and leveraging operations, procedures and personnel in a timely and efficient manner, as well as the Corporation's ability to share knowledge and realize revenues, synergies and other growth opportunities from combining acquired businesses and operations with those of the Corporation. Failure by the Corporation to effectively integrate acquisitions could lead to a failure to realize anticipated benefits of one or more acquisitions. The integration of any acquired business into the Corporation includes the combination of systems and personnel. The successful integration of an acquired business is subject to the risk that personnel and professionals from the acquired business and the Corporation may not be able to work together successfully, which could affect the Corporation's operations. In particular, the Corporation may seek to require as a condition of its acquisitions that key personnel and professionals enter into employment agreements for specified post-acquisition periods and/or non-competition undertakings, however there are risks that such commitments will not be fulfilled or that the personnel and professionals subject to same or other personnel and professionals will not be successfully integrated as productive contributors to the Corporation's business. Integration requires the dedication of substantial management effort, time and resources, which may divert Management's focus and resources from other strategic opportunities and from operational matters during the process. The acquisition integration process may also result in the disruption of ongoing business, customer, employee and other relationships that may adversely affect the Corporation's ability to achieve the anticipated benefits of a given acquisition, including the ability to realize the anticipated synergies from combining the acquired business into the Corporation. In particular, major clients of the acquired businesses may not be retained following the acquisition of such businesses. There is no assurance that the Corporation will be able to successfully integrate past acquisitions. Each year, the Corporation incurs acquisition-related integration costs which may be material. In addition, the overall integration may result in unanticipated operational problems, including the Corporation's own operational, financial and management systems which may be incompatible with or inadequate to effectively integrate and manage the acquired businesses.

Management believes that growth through acquisitions can provide certain benefits to the Corporation. A variety of factors may also adversely affect the anticipated benefits of an acquisition or prevent these from materializing or occurring within the time periods anticipated by the Corporation. In connection with acquisitions made by the Corporation, there may also be liabilities and contingencies that the Corporation failed to discover or was unable to quantify in the due diligence conducted prior to closing of an acquisition and which could have a material adverse effect on the Corporation's business, financial condition or future prospects.

## **Unproven Business Strategy**

While the Corporation has existing operations and is generating revenues, it plans to significantly expand its operations and staff to meet the requirements of its business initiatives. The commercial response to the product offerings is still uncertain, and although the Corporation believes that its strategy incorporates advantages compared to other medical cannabis business models, if patients or consumers do not respond favorably to the Corporation's products or if they take longer to develop its products or establish its customer base or it proves to be more costly than currently anticipated to develop its businesses, revenues may be adversely affected.

## **Service Providers**

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

## **Enforceability of Contracts**

It is a fundamental principle of law that a contract will not be enforced if it involves a violation of law or public policy. Because cannabis remains illegal at a federal level, judges may refuse to enforce contracts in connection with activities that violate federal law, even if there is no violation of State law. There remains doubt and uncertainty that the

Corporation will be able to legally enforce contracts it enters into if necessary. The Corporation cannot be assured that it will have a remedy for breach of contract, the lack of which may have a material adverse effect on the Corporation's business, revenues, operating results, financial condition or prospects.

### **Results of Future Clinical Research**

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC) and future research and clinical trials may discredit the medical benefits, viability, safety, efficacy, and social acceptance of cannabis or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of the Corporation's securities should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this Prospectus or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Corporation's products with the potential to lead to a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

### **Difficulty Attracting and Retaining Personnel**

The Corporation's success depends to a significant degree upon its ability to attract, retain and motivate highly skilled and qualified personnel. Failure to attract and retain necessary technical personnel, sales and marketing personnel and skilled management could adversely affect the Corporation's business. If the Corporation fails to attract, train and retain sufficient numbers of these highly qualified people, its prospects, business, financial condition and results of operations will be materially and adversely affected.

### **Dependence on Suppliers**

The ability of the Corporation to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to equipment, parts and components. No assurances can be given that the Corporation will be successful in maintaining its required supply of equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Corporation's capital expenditure plans may be significantly greater than anticipated by the Corporation's management, and may be greater than funds available to the Corporation, in which circumstance the Corporation may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the business, financial condition, results of operations or prospects of the Corporation.

We are monitoring the outbreak of the COVID-19 coronavirus. Should the outbreak become more widespread, it could disrupt the businesses of our industry partners and third-party suppliers, which, in turn, could impact our ability to procure equipment and raw materials from them and thereby negatively impact the business, financial condition, results of operations or prospects of the Corporation.

### **Reliance on Inputs**

The marijuana business is dependent on a number of key inputs and their related costs including raw materials and supplies related to growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of the Corporation. In addition, any restrictions on the ability to secure required supplies or utility services or to do so on commercially acceptable terms could have a materially adverse impact on the business, financial condition and operating results. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Corporation might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Corporation in the future. Any inability to secure required supplies and services or to do so on appropriate terms and/or agreeable terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Corporation.

### **Limited Market Data and Difficulty to Forecast**

As a result of recent and ongoing regulatory and policy changes in the medical and adult-use marijuana industry, the market data available is limited and unreliable. Federal and State laws prevent widespread participation and hinder market research. Therefore, the Corporation 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 industry. Market research and projections by the Corporation of estimated total retail sales, demographics, demand, and similar consumer research are based on assumptions from limited and unreliable market data, and generally represent the personal opinions of the Corporation's management team as at the date they are made. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations, financial condition or prospects of the Corporation.

### **Constraints on Marketing Products**

The development of the Corporation's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the U.S. limits companies' abilities to compete for market share in a manner similar to other industries. If the Corporation is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Corporation's sales and results of operations could be adversely affected.

### **Fraudulent or Illegal Activity by Employees, Contractors and Consultants**

The Corporation is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Corporation that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It may not always be possible for the Corporation to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Corporation to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Corporation from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Corporation, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Corporation's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Corporation's operations, any of which could have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

### **Information Technology Systems and Cyber-Attacks**

The Corporation's operations depend, in part, on how well it and its suppliers protect networks, equipment, information technology systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Corporation's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, information technology systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses.

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

The Corporation has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Corporation will not incur such losses in the future. The Corporation's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Corporation may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

## **Security Breaches**

Given the nature of the Corporation's products and its lack of legal availability outside of channels approved by the government of the U.S., as well as the concentration of inventory in its facilities, there remains a risk of shrinkage as well as theft. If there was a breach in security systems and the Corporation becomes victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment or if there was a failure of information systems or a component of information systems, it could, depending on the nature of any such breach or failure, adversely impact the Corporation's reputation, business continuity and results of operations. A security breach at one of the Corporation's facilities could expose the Corporation to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential customers from choosing the Corporation's products.

## **Website Accessibility**

Internet websites are visible by people everywhere, not just in jurisdictions where the activities described therein are considered legal. As a result, to the extent the Corporation sells services or products via web-based links targeting only jurisdictions in which such sales or services are compliant with State law, the Corporation may face legal action in other jurisdictions which are not the intended object of any of the Corporation's marketing efforts for engaging in any web-based activity that results in sales into such jurisdictions deemed illegal under applicable laws.

## **High Bonding and Insurance Coverage**

There is a risk that a greater number of State regulatory agencies will begin requiring entities engaged in certain aspects of the business or industry of legal marijuana to post a bond or significant fees when applying, for example, for a dispensary license or renewal as a guarantee of payment of sales and franchise tax. The Corporation is not able to quantify at this time the potential scope for such bonds or fees in the States in which it currently or may in the future operate. Any bonds or fees of material amounts could have a negative impact on the ultimate success of the Corporation's business.

The Corporation's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labor disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Corporation maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Corporation may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Corporation is not generally available on acceptable terms. The Corporation might also become subject to liability for pollution or other hazards which may not be insured against or which the Corporation may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Corporation to incur significant costs that could have a material adverse effect upon its business, results of operations, financial condition or prospects.

## **Past Performance Not Indicative of Future Results**

The prior investment and operational performance of the Corporation is not indicative of the future operating results of the Corporation. There can be no assurance that the historical operating results achieved by the Corporation, or its affiliates will be achieved by the Corporation, and the Corporation's performance may be materially different.

## **Financial Projections May Prove Materially Inaccurate or Incorrect**

The Corporation's financial estimates, projections and other forward-looking information or statements included in this Prospectus are based on assumptions of future events that may or may not occur, which assumptions may not be disclosed in this Prospectus. Shareholders should inquire of the Corporation and become familiar with the assumptions underlying any estimates, projections or other forward-looking information or statements. Projections are inherently subject to varying degrees of uncertainty and their achievability depends on the timing and probability of a complex series of future events. There is no assurance that the assumptions upon which these projections are based will be realized. Actual results may differ materially from projected results for a number of reasons including increases in operation expenses, changes or shifts in regulatory rules, undiscovered and unanticipated adverse industry and economic conditions, and unanticipated



competition. Accordingly, the Shareholders should not rely on any projections to indicate the actual results the Corporation might achieve.

### **Business Interruption Risks**

The Corporation may be impacted by business interruptions resulting from pandemics and public health emergencies, including those related to COVID-19. An outbreak of infectious disease, a pandemic or a similar public health threat, such as the recent outbreak of the novel coronavirus known as COVID-19, or a fear of any of the foregoing, could adversely impact the Corporation by causing operating, manufacturing supply chain, and project development delays and disruptions, labour shortages, travel and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). It is unknown whether and how the Corporation may be affected if such an epidemic persists for an extended period of time. The Corporation may incur expenses or delays relating to such events outside of its control, which could have a material adverse impact on its business, operating results and financial condition.

### **Unionization of Employees at the Corporation's Facilities**

If employees at our dispensaries or processing or cultivation facilities were to unionize, our relationship with our employees could be adversely affected. We would also face an increased risk of work stoppages and higher labor costs wherever labor is organized. Accordingly, unionization of our employees could have a material adverse impact on our operating costs and financial condition and could force us to raise prices on our products or curtail operations.

### **Natural Disasters and Terrorism Risk**

The occurrence of one or more natural disasters, such as hurricanes and earthquakes, unusually adverse weather, pandemic outbreaks, including the COVID-19 pandemic, boycotts and geo-political events, such as civil unrest, riots, war and acts of terrorism, or similar disruptions could materially adversely affect the Corporation's business, results of operations or financial condition. These events could result in physical damage to one or more of the Corporation's properties, increases in energy prices, temporary or permanent closure of one or more of the Corporation's facilities, labour shortages, temporary or long-term disruption in the supply of raw materials and other inputs, disruption in the Corporation's distribution network or disruption to the Corporation's information systems, any of which could have a material adverse effect on the Corporation's business, operating results and financial condition.

### **Restricted Access to Banking**

In February 2014, the FinCEN bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis businesses, including burdensome due diligence expectations and reporting requirements. The FinCEN Guidance remains effective to this day, in spite of the fact that the 2014 Cole Memo was rescinded and replaced by the Sessions Memorandum. The FinCEN Guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the DOJ, FinCEN or other federal regulators, though. Thus, most banks and other financial institutions in the U.S. do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Corporation may have limited or no access to banking or other financial services in the U.S. The inability or limitation in the Corporation's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Corporation to operate and conduct its business as planned or to operate efficiently.

On September 26, 2019, the U.S. House of Representatives passed the SAFE Banking Act, which aims to provide safe harbor and guidance to financial institutions that work with legal U.S. cannabis businesses. The SAFE Banking Act is currently being reviewed by the U.S. Senate Banking Committee. While the Senate is contemplating the SAFE Banking Act, the passage of which would permit commercial banks to offer services to cannabis companies that are in compliance with state law, if Congress fails to pass the SAFE Banking Act, the Corporation's inability, or limitations on the Corporation's ability, to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Corporation to operate and conduct its business as planned or to operate efficiently.

## **Risks of Leverage**

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

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

## **Additional Risks Related to the Cannabis Business**

### **Cannabis Continues to be a Controlled Substance under the United States Federal Controlled Substances Act**

The Corporation is engaged directly and indirectly in the medical and adult-use cannabis industry in the U.S. where only state law permits such activities. Investors are cautioned that in the U.S., cannabis is largely regulated at the State level. To the Corporation's knowledge, cannabis has been legalized in some form in approximately 40 States and Washington, D.C., Puerto Rico and Guam as at the date hereof. Additional States have pending legislation regarding the same.

Notwithstanding the permissive regulatory environment of cannabis at the State level, cannabis continues to be categorized as a controlled substance under the CSA and as such, cultivation, distribution, sale and possession of cannabis violates federal law in the U.S. Unless and until Congress amends the CSA with respect to cannabis (and the President approves such amendment), there is a risk that federal authorities may enforce current federal law.

The DOJ, under the current administration, could allege that the Corporation has "aided and abetted" in violations of federal law by providing financing and services to its portfolio cannabis companies. Under these circumstances, the federal prosecutor could seek to seize the assets of the Corporation, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Corporation's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

Notwithstanding the foregoing, as part of the Congressional omnibus-spending bill, Congress renewed, through September 30, 2020, the Rohrabacher-Farr Amendment, which prohibits the DOJ from expending any funds for the prosecution of medical cannabis businesses operating in compliance with State and local laws. At such time, it may or may not be included in the omnibus appropriations package or a continuing budget resolution once the current continuing resolution expires. Should the Rohrabacher-Farr Amendment not be renewed upon expiration in subsequent spending bills, there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with State law. Such potential proceedings could involve significant restrictions being imposed upon the Corporation or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Corporation's business, revenues, operating results and financial condition as well as the Corporation's reputation, even if such proceedings were concluded successfully in favor of the Corporation.

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 Corporation, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the U.S., the listing of its securities on the CSE, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Corporation 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 "*United States Regulatory Environment – Federal Regulatory Environment*".

### **Change in Enforcement of Cannabis Laws**

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in the Cole Memo acknowledging that notwithstanding the designation of cannabis as a controlled substance at the federal level in the U.S., several states have enacted laws relating to cannabis for medical purposes.

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

In light of limited investigative and prosecutorial resources, the Cole Memo concluded that the DOJ should be focused on addressing only the most significant threats related to cannabis. States where cannabis had been legalized were not characterized as a high priority. In March 2017, then newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memo had merit. However, he disagreed that it had been implemented effectively and, on January 4, 2018, Mr. Sessions issued the Sessions Memorandum that rescinded and superseded the Cole Memo effective as of such date. The Sessions Memorandum stated, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime", and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by U.S. Congress and to follow well-established principles when pursuing prosecutions related to cannabis activities. U.S. Attorney General Jeff Sessions resigned on November 7, 2018. As of his resignation, Matthew Whitaker was the acting

U.S. former Attorney General William Barr was appointed as the U.S. Attorney General on February 14, 2019. In an April 10, 2019 Senate Appropriations Subcommittee meeting to discuss the Justice Department's budget 2020, in response to a question about his position on the proposed Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, former Attorney General Barr stated: "Personally, I would still favor one uniform federal rule against marijuana," "But if there is not sufficient consensus to obtain that then I think the way to go is to permit a more federal approach so states can, you know, make their own decisions within the framework of the federal law. So we're not just ignoring the enforcement of federal law." The STATES Act, if it were to pass, would allow states to determine their own approaches to marijuana. Former Attorney General Barr said the legislation was still being reviewed by his office but that he would "much rather... the approach taken by the STATES Act than where we currently are." It is unclear what impact this development will have on federal government enforcement policy. The inconsistency between federal and state laws and regulations is a major risk factor.

As a result of the Sessions Memorandum, federal prosecutors may use their prosecutorial discretion to decide whether to prosecute cannabis activities despite the existence of state-level laws permitting such activity. No direction was given to federal prosecutors in the Sessions Memorandum as to the priority they should ascribe to such cannabis activities, and resultantly it is uncertain how active federal prosecutors will be in relation to such activities. Furthermore, the Sessions Memorandum did not discuss the treatment of medical cannabis by federal prosecutors. Under the Rohrabacher-Farr Amendment, federal prosecutors are prohibited from expending federal funds against medical cannabis activities that are in compliance with state law. Dozens of U.S. Attorneys across the country have affirmed that their view of federal enforcement priorities has not changed. In Washington, Annette Hayes, U.S. Attorney for the Western District of Washington, released a statement affirming that her office will continue to investigate and prosecute "cases involving organized crime, violent and gun threats, and financial crimes related to marijuana" and that "enforcement efforts with our federal, state, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve." However, in California, at least one U.S. Attorney has made comments indicating a desire to enforce the Controlled Substances Act: Adam Braverman, Interim U.S. Attorney for the Southern District of California, has been viewed as a potential "enforcement hawk" after stating that the rescission of the 2013 Cole Memo "returns trust and local control to federal prosecutors" to enforce the Controlled Substances Act. Additionally, Greg Scott, the Interim U.S. Attorney for the Eastern District of California, has a history of prosecuting medical cannabis activity: his office published a statement that cannabis remains illegal under federal law, and that his office would "evaluate violations of those laws in accordance with our district's federal law enforcement priorities and resources". There can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

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

Current U.S. President Biden publicly stated during his campaign a policy goal to decriminalize possession of cannabis at the federal level. It is unclear how much of a priority decriminalization may be for President Biden's administration. President Biden nominated federal judge Merrick Garland to serve as his Attorney General. During his confirmation hearings in the Senate on February 22, 2021, Attorney General nominee Garland confirmed that he would not prioritize pursuing cannabis prosecutions in states that have legalized and that are regulating the use of cannabis, both for medical and adult use. The Senate confirmed Judge Garland as Attorney General on March 10, 2021.

See "*United States Regulatory Environment – Federal Regulatory Environment*".

### **Renewal of Rohrabacher-Farr Amendment**

The Rohrabacher-Farr Amendment, as discussed above, prohibits the DOJ from spending funds appropriated by Congress to enforce the tenets of the CSA against the medical cannabis industry in states which have legalized such activity. This amendment has historically been passed as an amendment to omnibus appropriations bills, which by their nature expire at the end of a fiscal year or other defined term. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the United States Congress continued to include the Rohrabacher-Blumenauer Amendment in each subsequent omnibus appropriations bill for fiscal years 2018, 2019, 2020 and 2021, thus preserving the protections for the medical cannabis marketplace and its lawful participants from interference by the U.S. DOJ up and through the 2021 appropriations deadline of September 30, 2021. At such time, it may or may not be included in the omnibus appropriations package or a continuing budget resolution, and its inclusion or non-inclusion, as applicable, is subject to political changes.

### **Civil Asset Forfeiture**

Because the cannabis industry remains illegal under U.S. federal law, any property owned by participants in the cannabis industry, such as the Corporation, which is either used in the course of conducting such business, or is the proceeds of such business, could be subject to seizure by law enforcement and subsequent civil asset forfeiture. Even if the owner of the property were never charged with a crime, the property in question could still be seized and subject to an administrative proceeding by which, with minimal due process, it could be subject to forfeiture.

### **Laws and Regulations Affecting the Cannabis Industry are Constantly Changing**

The constant evolution of laws and regulations affecting the cannabis industry could detrimentally affect the Corporation. The current and proposed operations of the Subsidiaries are subject to a variety of local, state and federal medical cannabis laws and regulations relating to the manufacture, management, transportation, storage and disposal of cannabis, as well as 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 the Corporation to incur substantial costs associated with compliance or alter certain aspects of their business plans. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the business plans of the Corporation and result in a material adverse effect on certain aspects of their planned operations. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Corporation's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the FDA, SEC, the DOJ, the Financial Industry Regulatory Advisory or other federal or applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or adult use purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the industry may adversely affect the business and operations of the Corporation, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital. In addition, the Corporation will not be able to predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to its business.

## **Market for Cannabis Could Decline due to Regulatory Changes**

There can be no assurance that the number of States that allow the use of medicinal cannabis will increase. Furthermore, there can be no assurance that the existing States, districts and territories that permit the use of medicinal cannabis will not reverse their position. If either of these things happens at any future time, then growth of the Corporation's business may be materially impacted. The Corporation may not be able to achieve targeted revenue levels and may experience declining revenue as the potential market for its products and services diminishes.

## **General Regulatory and Legal Risks - Litigation**

The Corporation may become threatened by a party, or otherwise become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Corporation becomes involved be determined against the Corporation, such a decision could adversely affect the Corporation's ability to continue operating and the market price for the Common Shares. Even if the Corporation is involved in litigation and is successful, such litigation could redirect significant company resources.

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

The Corporation is subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), Sections 1956 and 1957 of U.S.C. Title 18 (the Money Laundering Control Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada. Further, under U.S. federal law, banks and 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.

In the event that any of the Corporation's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the U.S. were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Corporation to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while there are no current intentions to declare or pay dividends on the Common Shares in the foreseeable future, in the event that a determination was made that the Corporation's proceeds from operations (or any future operations or investments in the U.S.) could reasonably be shown to constitute proceeds of crime, the Corporation may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

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

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

## **Heightened Scrutiny by Regulatory Authorities**

For the reasons set forth above, the Corporation's existing operations in the U.S., and any future operations or investments of the Corporation, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Corporation 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 Corporation's ability to operate or invest in any other jurisdictions, in addition to those described herein.

Further to the indication by CDS Clearing and Depository Services Inc. ("CDS"), Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets that it would refuse to settle trades for cannabis issuers that have investments in the U.S., 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 The 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 currently 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 at a time when the Common Shares are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to complete a trade of securities through the facilities of the applicable stock exchange. 1933 has obtained eligibility with DTC for its Common Shares quotation on the OTCQB and such eligibility provides another possible avenue to clear the Common Shares in the event of a CDS ban. Revocation of DTC eligibility or implementation by DTC of a ban on the clearing of securities of issuers with cannabis-related activities in the United States would similarly have a material adverse effect on the ability of holders of the Common Shares to make and settle trades.

### **Risk of Legal, Regulatory or Political Change**

The success of the business strategy of the Corporation depends on the legality of the marijuana industry. The political environment surrounding the marijuana industry in general can be volatile and the regulatory framework remains in flux. To the Corporation's knowledge, some form of cannabis has been legalized in approximately 40 States and Washington, D.C., Puerto Rico, Guam, Northern Mariana Islands and US Virgin Islands as of December 2021; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Corporation's business, results of operations, financial condition or prospects.

Delays in enactment of new State or federal regulations could restrict the ability of the Corporation to reach strategic growth targets. The growth strategy of the Corporation is contingent upon certain federal and State regulations being enacted to facilitate the legalization of medical and adult-use marijuana. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Corporation, and thus, the effect on the return of investor capital, could be detrimental. The Corporation is unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

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

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

The commercial medical and adult-use marijuana industry is in its infancy and the Corporation anticipates that such regulations will be subject to change as the jurisdictions in which the Corporation does business matures. The Corporation has in place a detailed compliance program headed by its General Counsel who oversees, maintains, and implements the compliance program and personnel. Compliance officers in each operating subsidiary are charged with knowing the local regulatory process and monitoring developments with their governing bodies. Each compliance officer regularly reports regulatory developments to the General Counsel or enforcement by regulators in certain States against such services arrangements through written and oral communications and is charged with the creation and implementation of plans regarding any regulatory developments. In addition to the Corporation's robust legal and compliance departments, the Corporation also has local legal/regulatory counsel engaged in every jurisdiction in which it operates. Corporation's compliance program emphasizes security and inventory control to ensure strict monitoring of cannabis and inventory from delivery by a licensed distributor to sale or disposal. Additionally, the Corporation has created comprehensive

standard operating procedures that include detailed descriptions and instructions for monitoring inventory at all stages of development and distribution. The Corporation will continue to monitor compliance on an ongoing basis in accordance with its compliance program, standard operating procedures, and any changes to regulation in the marijuana industry.

Overall, the medical and adult-use marijuana industry is subject to significant regulatory change at both the State and federal level. The inability of the Corporation to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

### **General Regulatory and Licensing Risks**

The Corporation's business is subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Achievement of the Corporation's business objectives are contingent, in part, upon compliance with applicable regulatory requirements and obtaining all requisite regulatory approvals. Changes to such laws, regulations and guidelines due to matters beyond the control of the Corporation may result in a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

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

Several of the Corporation's licenses are subject to renewal on an annual or periodic basis; however, they are generally renewed, as a matter of course, if the license holder continues to operate in compliance with applicable legislation and regulations and without any material change to its operations.

While the Corporation's compliance controls have been developed to mitigate the risk of any material violations of any license it holds arising, there is no assurance that the Corporation's licenses will be renewed by each applicable regulatory authority in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process for any of the licenses held by the Corporation could impede the ongoing or planned operations of the Corporation and have a material adverse effect on the Corporation's business, financial condition, results of operations or prospects.

The Corporation may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Corporation's reputation, require the Corporation to take, or refrain from taking, actions that could harm its operations or require Corporation to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Corporation's business, financial condition, results of operations or prospects.

### **Limitations on Ownership of Licenses**

In certain States, the cannabis laws and regulations limit, not only the number of cannabis licenses issued, but also the number of cannabis licenses that one person may own. For example, in Nevada, to prevent monopolistic practices, the governing body ensures that in counties with a population of 100,000 or more, that any one person, group of persons or entity, is issued more than one cannabis establishment license, or more than 10% of the cannabis establishment licenses otherwise allocable in the county. The Corporation believes that, where such restrictions apply, it may still capture significant share of revenue in the market through wholesale sales, exclusive marketing relations, provision of management or support services, franchising and similar arrangement with other operators in compliance with state law. Nevertheless, such limitations on the acquisition of ownership of additional licenses within certain States or enforcement

by regulators in certain States against such services arrangements may limit the Corporation's ability to grow organically or to increase its market share in such States.

### **Constraints on Marketing Products**

The development of the Corporation's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the U.S. limits companies' abilities to compete for market share in a manner similar to other industries. If the Corporation is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Corporation's sales and results of operations could be adversely affected.

### **Limited Trademark Protection**

The Corporation or its subsidiaries will not be able to register any U.S. federal trademarks for their cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is illegal under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Subsidiaries likely will be unable to protect their cannabis product trademarks beyond the geographic areas in which they conduct business. The use of its trademarks outside the states in which they operate by one or more other persons could have a material adverse effect on the value of such trademarks.

### **Environmental Risks Environmental Regulation**

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

Government approvals and permits are currently, and may in the future, be required in connection with the Corporation's operations. To the extent such approvals are required and not obtained, the Corporation may be curtailed or prohibited from its proposed production of medical marijuana or from proceeding with the development of its operations as currently proposed.

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

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

### **Unknown Environmental Risks**

There can be no assurance that the Corporation will not encounter hazardous conditions at the facilities where it operates its businesses, including, without limitation, its medical cannabis cultivation and dispensary facilities, such as asbestos or lead, in excess of expectations that may delay the development of its businesses. Upon encountering a hazardous condition, work at the facilities of the Corporation may be suspended. The presence of other hazardous conditions may require significant expenditure of the Corporation's resources to correct the condition. Such conditions could have a material impact on the investment returns of the Corporation.

### **Tax Risks**

Section 280E of the Code, as amended, prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable State laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly and



the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Further, there are several pieces of legislation being considered by the U.S. Congress that could change the interpretation of Section 280E by removing its applicability to the legalized cannabis industry. Given these facts, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Corporation.

Under Section 382 of the Code, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. The Corporation has not completed a study to assess whether an "ownership change" has occurred or whether there have been multiple ownership changes since the Corporation became a "loss corporation" as defined in Section 382. Future changes in the Corporation's stock ownership, which may be outside of the Corporation's control, may trigger an "ownership change." In addition, future equity offerings or acquisitions that have equity as a component of the purchase price could result in an "ownership change." If an "ownership change" has occurred or does occur in the future, utilization of the net operating loss carryforwards or other tax attributes may be limited, which could potentially result in increased future tax liability to the Corporation.

## **Additional Risks Related to the Hemp CBD Industry**

### **Changes to State Laws Pertaining to Hemp**

The 2018 Farm Bill provides that states and Native American tribes may assume primary regulatory authority over the production of hemp in their jurisdictions through a hemp plan approved by the USDA. As of the date hereof, the USDA has approved a few dozen state and tribal hemp production plans submitted after the interim final rule dated October 31, 2019, in respect of commercial production of hemp in the United States (the "IFR") was issued by the USDA. If a state does not elect to devise a hemp regulatory program, the United States Department of Agriculture (the "USDA") will develop a program under which Hemp cultivators in such states can apply for licenses. Approximately 20 states – including Kentucky, Colorado, and Oregon have chosen to continue operating under the authorizations of the 2014 Farm Bill for the 2021 growing season, relying on their pilot program authorizations from the 2014 Farm Bill. Continued development of the hemp industry will be dependent upon new legislative authorization of Hemp at the state level, and further amendment or supplementation of legislation at the federal level. Any number of events or occurrences could slow or halt progress all together in this space. While progress within the hemp industry is currently encouraging, growth is not assured. While there appears to be ample public support for favorable legislative action at the state and federal levels, numerous factors may impact or negatively affect the legislative process(es) within the various states the Company has business interests in. Any one of these factors could slow or halt use of hemp or CBD, which would negatively impact the Company's business or growth, including possibly causing the Company to discontinue operations as a whole.

Legislative and regulatory uncertainties, along with difficulties concerning potential enforcement activities by U.S. federal, state and local governments (or discretion exercised thereby), also represent significant risks to the Company's business activities. Possible risks include, but are not limited to:

- positions asserted by the FDA concerning products containing derivatives from hemp;
- uncertainty surrounding the characterization of cannabinoids as a dietary ingredient by the FDA; and
- enforcement activities by state and/or local law enforcement and regulatory authorities under the auspice of individual state law, regardless of any potential conflict thereby with federal law.

If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, or if applicable laws or regulations change or the enforcement of applicable laws or regulations changes, the Company may be subject to penalties, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures, any of which could adversely affect the Company's business and financial results.

### **Changes to Federal Laws Pertaining to Hemp**

Federal regulations under the 2018 Farm Bill were promulgated in the IFR on October 31, 2019. The IFR governs the domestic production of Hemp under the 2018 Farm Bill and also specifies the provisions that a state or tribal Hemp plan must contain to be in compliance with the 2018 Farm Bill. However, some states are continuing to operate under the 2014 Farm Bill through the 2021 growing season. The IFR, which expires November 1, 2021, was replaced by the USDA's

Final Rule on the same topic and took effect March 22, 2021. Should the USDA's permanent regulations adopted pursuant to the 2018 Farm Bill or other regulations result in stricter requirements on the Company than those of the 2014 or 2018 Farm Bills or the IFR, such changes could have a material adverse effect on the Company's business, financial condition and results of operations.

### **Risks Associated with Numerous Laws and Regulations**

The production, labeling and distribution of the hemp-based CBD infused products that the Company distributes are regulated by various federal, state and local agencies. These governmental authorities may commence regulatory or legal proceedings, which could restrict the permissible scope of the Company's product claims or the ability to sell its products in the future. The FDA regulates the Company's products to ensure that the products are not adulterated or misbranded.

The Company is subject to regulation by various agencies as a result of the manufacture and sale of its hemp-based CBD wellness products. The shifting compliance environment and the need to build and maintain robust systems to comply with different regulations in multiple jurisdictions increases the possibility that the Company may violate one or more of the requirements. If the Company's operations are found to be in violation of any of such laws or any other governmental regulations, or perceived to be in violation, the Company may be subject to penalties or other negative effects, including, without limitation, civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures and the denial of regulatory applications (including those regulatory regimes outside of the scope of FDA jurisdiction, but which may rely on the positions of the FDA in the application of its regulatory regime), any of which could adversely affect the Company's business and financial results. In addition, the FDA is expected to make determinations as to how certain CBD products will be regulated and is expected to, in the long term, consider modernization in its regulation of dietary supplements generally.

Failure to comply with FDA requirements may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines and criminal prosecutions. The Company's advertising is subject to regulation by the FTC under the Federal Trade Commission Act as well as subject to regulation by the FDA under the DSHEA. In recent years, the FTC has initiated numerous investigations of dietary and nutritional supplement products and companies based on allegedly deceptive or misleading claims. At any point, enforcement strategies of a given agency can change as a result of other litigation in the space or changes in political landscapes, and could result in increased enforcement efforts, which would materially impact the Company's business. Additionally, some states also permit advertising and labeling laws to be enforced by state attorney generals, who may seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Private litigants may also seek relief for consumers, class action certifications, class wide damages and product recalls of products sold by the Company. Any actions against the Company by governmental authorities or private litigants could have a material adverse effect on the Company's business, financial condition and results of operations.

### **Compliance with changes in legal, regulatory and industry standards may adversely affect the Company's business**

The formulation, manufacturing, packaging, labelling, handling, distribution, importation, exportation, licensing, sale and storage of the Company's products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints may exist at the federal, provincial or local levels. There is currently no uniform regulation applicable to natural health products worldwide. There can be no assurance that the Company is in compliance with all of these laws, regulations and other constraints, and changes to such laws, regulations and other constraints may have a material adverse effect on operations.

### **Incorrect Interpretation of the 2018 Farm Bill**

The Company's position is that the 2018 Farm Bill permanently removed Hemp from the CSA and is now deemed an agricultural commodity, and accordingly the DEA no longer has any claim to interfere with the interstate commerce of Hemp products, so long as the THC level is at or below 0.3% on a dry weight basis. There is a risk that the Company's interpretation of the legislation is inaccurate or that it will be successfully challenged by federal or state authorities. A successful challenge to such position by a state or federal authority could have a material adverse effect on the Company, including civil and criminal penalties, damages, fines, the curtailment or restructuring of the Company's operations or asset seizures and the denial of regulatory applications.

## **Product and Market Expansion and Entry into New Markets**

The Company may expand its product offerings and/or expand into new international markets, each of which will require management attention and financial resources that would otherwise be spent on other parts of its business. Such expansion would expose the Company to risks and expenses inherent in selling new products and offering products in new foreign jurisdictions, which could increase the Company's operational, regulatory, compliance, reputational and foreign exchange rate risks. The failure of the Company's operating infrastructure to support such expansion could result in operational failures and regulatory fines or sanctions. Future product, market or international expansion could require the Company to incur a number of up-front expenses, including those associated with obtaining regulatory clearance or approvals, as well as additional ongoing expenses, including those associated with infrastructure, staff and regulatory compliance. Any expansion efforts will be subject to various laws, regulations and guidelines that are subject to change over time, and result in increased costs and risk associated with regulatory compliance. In addition, product and market expansion could impact the Company's current product offerings, brand, and reputation, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

## **Uncertainty Caused by Potential Changes to Regulatory Framework**

There is substantial uncertainty and different interpretations among federal, state and local regulatory agencies, legislators, academics and businesses as to the importation of derivatives from exempted portions of the cannabis plant and the scope of 2014 and 2018 Farm Bill-compliant hemp programs relative to the 2014 Farm Bill and the 2018 Farm Bill and the emerging regulation of cannabinoids. These different opinions include, but are not limited to, the regulation of cannabinoids by the FDA and the extent to which manufacturers of products containing imported raw materials and/or 2018 Farm Bill-compliant cultivators and processors may engage in interstate commerce. The uncertainties cannot be resolved without further federal, and potentially state-level, legislation, regulation or a definitive judicial interpretation of existing legislation and rules. If these uncertainties continue, they may have an adverse effect upon the introduction of the Company's products in different markets.

Although the Company believes that the departures of Commissioner Gottlieb and Commissioner Hahn will not have a significant long-term impact on the development of a regulatory regime permitting Cannabis-derived compounds in foods or dietary supplements, there can be no certainty that the new Commissioner appointed by the Biden Administration will continue on that same path. If the new FDA Commissioner were to halt current initiatives of the FDA regarding CBD, such as a potential rulemaking or enforcement policy guidance, this could delay the development of such a regulatory regime and have an adverse effect on the business of the Company.

## **NDI Objection by FDA**

There is substantial uncertainty and different interpretations among state and federal regulatory agencies, legislators, academics and businesses as to whether cannabinoids were present in the food supply and marketed prior to October 15, 1994, or whether such inclusion of cannabinoids is otherwise approved by the FDA as dietary ingredients. In addition, there is substantial uncertainty and different interpretations as to whether cannabinoids are by definition an impermissible adulterant due to marijuana being a controlled substance under the CSA. The uncertainties cannot be resolved without further federal legislation, regulation or a definitive judicial interpretation of existing legislation and rules. A determination that hemp products containing cannabinoids were not present in the food supply, marketed prior to October 15, 1994, are not otherwise permissible for use as a dietary ingredient or are adulterants would have a materially adverse effect upon the Company and its business. The Company could be required to submit a new dietary ingredient ("NDI") notification to the FDA with respect to hemp extracts. If FDA objects to the Company's NDI notification, this would have a material adverse effect upon the Company and its business.

## **FDA Interpretation of IND Preclusion**

The FDA has taken the position that CBD cannot be added to food or marketed as a dietary supplement because it has been the subject of investigation as a new drug (i.e. IND Preclusion). According to the FDA, the submission of the IND application for Epidiolex by Greenwich Biosciences, the U.S. subsidiary of London-based GW Pharmaceuticals, preceded the sales and marketing of CBD as a dietary supplement. It is the FDA's interpretation of the IND Preclusion that the preclusion date is the date in which it authorized the drug for investigation. It is the Company's position that CBD was marketed in a dietary supplement or food prior to substantial clinical investigations being instituted and being made public. If the FDA were to enforce the IND Preclusion based on its interpretation of the legislation, this would materially and adversely impact the Company's business and financial condition.

## **FDA Enforcement Letters**

The FDA continues to enforce against violations of the FD&C Act by issuing warning letters to companies marketing and selling hemp derived CBD products. Over the past several years, the FDA has issued warning letters to companies marketing and selling unapproved hemp derived CBD products. The letters reiterate the agency's position that CBD cannot be added to food and dietary supplements and targeted companies whose products violated the FD&C Act's prohibition against: (i) marketing CBD as or in a dietary supplement, human and animal food, or food additives; (ii) marketing a dietary supplement, human and animal food, or cosmetic with disease or drug claims (i.e., claims suggesting that a product is intended to treat, cure, or prevent disease); (iii) including a substance in human or animal food when that substance is not GRAS; and (iv) selling products that are misbranded due to their failure to include "adequate directions for use by a layperson". The FDA also issued a consumer update reaffirming its position that CBD cannot lawfully be added to a food or marketed as a dietary supplement due to existing provisions of the FD&C Act, and outlines the data and potential safety issues it is considering as part of its ongoing evaluation of potential regulatory frameworks for CBD. Notably, the FDA states that it could not conclude based on available data that CBD is "generally recognized as safe" for use in human or animal food. While this is broad and may not be applicable in all instances, it nevertheless could materially and adversely impact the Company's business and financial condition. Further, the FDA has recently stated that it will continue to police the market and enforce against CBD products, and on March 22, 2021, the agency issued warning letters to two companies for selling OTC products labeled as containing CBD, alleging the products are illegally marketed unapproved drugs and misbranded due to prominent featuring of CBD on the labeling. The FDA's enforcement against the unlawful sale and marketing of CBD products has to date been limited to the issuance of warning letters, but they have a number of other enforcement means available to them, including civil and criminal penalties. The FDA's current prohibition on certain hemp-derived products and the unknowns and associated risks of potential future regulations governing hemp-derived CBD products create risk for the Company's business.

## **DEA Interpretation and Enforcement of the DEA IFR**

Through the DEA IFR, the DEA takes the position that material that exceeds 0.3% delta-9 THC remains controlled in Schedule I of the CSA. It also takes the position that the 2018 Farm Bill does not impact the control status of synthetically derived THC's, for which the DEA claims that the amount of delta-9 THC is not a determining factor in whether the material is a controlled substance. The DEA IFR may create risk for the Company's business. Enforcement of the DEA IFR, or any Final Rule that carries forward the rulemaking in the DEA Rule, may result in, among other things, injunctions, product withdrawals, recalls, product seizures, fines, and criminal prosecutions. Additionally, enforcement of the DEA IFR could jeopardize the legality of the Company's intermediate Hemp products, such as in-process Hemp extract that is incorporated in the Company's finished products. Such enforcement would not only disrupt the Company's operations, but it would also constrict the Company's supply chains.

## **Regulatory Approval and Permits**

The Company may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its CBD infused products are sold. There can be no assurance that the Company will be able to obtain or maintain any necessary licenses, permits or approvals. Any material delay or inability to receive these items is likely to delay and/or inhibit the Company's ability to conduct its business, and would have an adverse effect on its business, financial condition and results of operations.

## **DIRECTORS AND EXECUTIVE OFFICERS**

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

Except as set out below, to the knowledge of the Company, 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 Prospectus, or has been within 10 years before the date of this Prospectus, 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.

Richard Skeith is a director of Callitas Health Inc. (“**Callitas Health**”). On July 9, 2019, the British Columbia Securities Commission and the Ontario Securities Commission issued a Cease Trade Order for Callitas Health’s failure to file its annual audited financial statements, management’s discussion and analysis, and certification of annual filings for the year ended December 31, 2018 and for the three month period ended March 31, 2019. Callitas Health was delisted from the Canadian Securities Exchange on December 8, 2021.

Richard Skeith was a director of Strategic Oil & Gas Ltd. (“**Strategic**”) until January 2020. On May 6, 2019, the Alberta Securities Commission and the Ontario Securities Commission issued a Cease Trade Order for Strategic’s failure to file its annual audited financial statements, management’s discussion and analysis, and certification of annual filings for the year ended December 31, 2018.

Except as set out below, to the knowledge of the Company, 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 Prospectus, or has been within 10 years before the date of this Prospectus, 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 Prospectus, 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.

Richard Skeith was a director of Leader Energy Services Ltd. (“**Leader**”), which following his resignation, filed a Notice of Intention to File a Proposal on February 15, 2015, in accordance with section 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada). On March 16, 2015, the Court of Queen’s Bench of Alberta granted an order approving the sale process for the sale of the undertaking, property and assets of Leader and appointed Range Corporate Advisors to conduct the sale.

On April 10, 2019, Strategic of which Richard Skeith was a director until January 2020, filed for creditor protection under the *Companies’ Creditor Arrangement Act* (Canada) and KPMG Inc. was appointed as Monitor. Subsequent to Mr. Skeith’s resignation, on January 28, 2020, the Court of Queen’s Bench of Alberta granted a receivership order and on July 19, 2021, the Queen’s Bench of Alberta granted an order approving the sale process for the sale of the undertaking, property and assets of Strategic and appointed Sayer Energy Advisors to conduct the sale.

To the knowledge of the Company, 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.

## 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 Company 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 Company or an affiliate of the Company. NI 52-110 requires the Company, 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 the AIF as Schedule “A”.

### Composition of the Audit Committee

The following are the current members of the Committee:

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

Note:

(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. 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.

Continues to work as an SME with the state CCB & court representatives in various receivership models to build out, restructure, reorganize the debt, tax considerations, cost to produce and cost of goods sold to outline the necessary road maps to turn the business toward positive solutions while ensuring transparency & visibility for decision making systems.

Mr. Shepherd is a self-employed businessman who has been in the cannabis and hemp industries for several years. Mr. Shepherd oversees the monthly tax and sales reporting for both local and state requirements in his licensed businesses in Nevada while works closely with the accounting and financial teams. He has obtained financial experience and exposure to accounting and financial issues through his business activities including developing road maps for positive business solutions and dealing with restructuring, reorganizing debt, tax considerations and the cost to produce and cost of goods sold. Mr. Shepherd brings enterprise level proficiency in developing and executing strategies for operating and scaling businesses, by providing process and data driven management, planning, and business development solutions.

### **PROMOTER**

No person or company has been, within the two years immediately preceding the date of this Prospectus, a promoter of the Corporation.

### **MATERIAL CONTRACTS**

Other than as disclosed herein, 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.

### **LEGAL MATTERS**

Unless otherwise specified in the Prospectus Supplement relating to an offering of Securities, certain legal matters relating to the offering of Securities will be passed upon on behalf of the Corporation by TingleMerrett LLP with respect to matters of Canadian law. As at the date hereof, TingleMerrett LLP, and its partners and associates, beneficially own, directly or indirectly, as a group, less than 1% of any class of outstanding securities of the Corporation. In addition, certain legal matters in connection with any offering of Securities will be passed upon for any underwriters, dealers or agents by counsel to be designated at the time of the offering by such underwriters, dealers or agents, as the case may be.

### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

MNP LLP, Chartered Professional Accountants is the auditor of the Corporation and has confirmed that they are independent within the meaning of the code of conduct of the Chartered Professional Accountants of Ontario and any applicable legislation or regulations. MNP LLP have performed the audit in respect of annual financial statements as at and for the year ended July 31, 2021, incorporated by reference herein.

The transfer agent and registrar for the Common Shares is Odyssey Trust Company at its principal offices in Calgary, Alberta.

### **EXPERTS**

The auditor of the Corporation is MNP LLP, Chartered Professional Accountants. MNP LLP provided an auditor's report on the annual financial statements of the Corporation as at and for the year ended July 31, 2021, incorporated by reference

into this Prospectus. MNP LLP is independent with respect to the Corporation within the meaning of the code of conduct of the Chartered Professional Accountants of Ontario.

The former auditor of the Corporation, Davidson & Company LLP provided an auditor's report for the comparative period contained in the Annual Financial Statements of the Corporation incorporated by reference into this Prospectus. Davidson and Company LLP is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia.

### **PURCHASERS' STATUTORY RIGHTS**

Unless provided otherwise in a Prospectus Supplement, the following is a description of a purchaser's statutory rights. Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory.

Original purchasers of Securities which are convertible, exchangeable or exercisable for other securities of the Corporation (unless the Securities are reasonably regarded by the Corporation as incidental to the applicable offering as a whole) will have a contractual right of rescission against the Corporation in respect of the conversion, exchange or exercise of such Securities. The contractual right of rescission will be further described in any applicable Prospectus Supplement, but will, in general, entitle such original purchasers to receive, upon surrender of the underlying securities, the amount paid for the applicable convertible, exchangeable or exercisable Securities (and any additional amount paid upon conversion, exchange or exercise) in the event that this Prospectus (as supplemented or amended) contains a misrepresentation, provided that: (i) the conversion, exchange or exercise takes place within 180 days of the date of the purchase of such Securities under this Prospectus and the applicable Prospectus Supplement; and (ii) the right of rescission is exercised within 180 days of the date of the purchase of such Securities under this Prospectus and the applicable Prospectus Supplement.

In an offering of Securities which are convertible, exchangeable or exercisable for other securities of the Corporation, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in this Prospectus, the relevant Prospectus Supplement or an amendment thereto is limited, in certain provincial and territorial securities legislation, to the price at which the Securities which are convertible, exchangeable or exercisable for other securities of the Corporation are offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces and territories of Canada, if the purchaser pays additional amounts upon conversion, exchange or exercise of the Security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces and territories of Canada. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of this right of action for damages, or consult with a legal adviser.

### **ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS**

The following directors and officers of the Corporation, being Lisa Capparelli, Ranson Shepherd, and Caleb Zobrist, reside outside of Canada and each has appointed Armstrong Simpson, located at 2080 – 777 Hornby Street, Vancouver, BC, Canada, V6Z 1S4, as his/her agent for service of process in Canada.

Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that resides outside of Canada or is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction, even if the party has appointed an agent for service of process.

## CERTIFICATE OF THE CORPORATION

Date: November 17, 2022

This short form prospectus, together with the documents incorporated in this short form prospectus by reference, will, as of the date of a particular distribution of securities under the prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and the supplement(s) as required by the securities legislation of each of the provinces of British Columbia, Alberta, Saskatchewan and Ontario.

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

By: *(Signed) Paul Rosen*  
Paul Rosen  
Chief Executive Officer

By: *(Signed) Brian Farrell*  
Brian Farrell  
Chief Financial Officer

## ON BEHALF OF THE BOARD OF DIRECTORS

By: *(Signed) Lisa Capparelli*  
Lisa Capparelli  
Director

By: *(Signed) D. Richard Skeith*  
D. Richard Skeith  
Director