

Chalice Brands Ltd. (Formerly Golden Leaf Holdings Ltd.)
13315 NE Airport Way STE 700
Portland, Oregon 97230

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2021

Date: May 25, 2021

GENERAL

Chalice Brands Ltd. ("Chalice" or the "Company") is a publicly traded corporation, incorporated in Ontario that is traded on the Canadian Securities Exchange under the symbol "CHAL" and on the OTCQB under the symbol "GLDFF". The registered office of the Company is located at 82 Richmond Street East, Toronto, Ontario, M5C 1P1, and its principal U.S. corporate office is located at 13315 NE Airport Way STE 700, Portland, Oregon 97230.

Unless otherwise indicated, all financial information in this Management's Discussion and Analysis ("MD&A") is reported in United States dollars, except share amounts. This MD&A was prepared with reference to National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators. This MD&A provides information for the three months ended March 31, 2021 and up to and including May 25, 2021. This MD&A should be read in conjunction with the Company's audited Consolidated Financial Statements for the years ended December 31, 2020 and 2019, together with the related Notes (the "Consolidated Financial Statements") in addition to the interim condensed consolidated financial statements.

The interim condensed consolidated Financial Statements and this MD&A have been reviewed and approved by the Company's Audit Committee on May 24, 2021 and by the Company's Board of Directors on May 24, 2021. The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended December 31, 2020 ("last annual financial statements"), which were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"). The interim condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements. The Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") and include the accounts of the Company and its wholly-owned subsidiaries as detailed in Note 5 to the Consolidated Financial Statements. All inter-company balances and transactions have been eliminated on consolidation. Additional information filed by us with the Canadian Securities Administrators, including quarterly reports is available online at www.sedar.com and on our website at www.chalicebrandsltd.com.

The Company's critical accounting estimates and significant accounting policies are disclosed in the notes to the audited Consolidated Financial Statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Certain forward-looking statements in this MD&A include, but are not limited to: statements regarding acquiring additional retail stores, increasing market share; the Company's expectations regarding legislation, regulations and licensing related to the cultivation, production and sale of cannabis products by the Company's wholly-owned subsidiaries; investments and capital expenditures; the timing of harvests; the launch of new products and markets; the Company's expectations with respect to the company's future financial and operating performance; product sales expectations; production capacity expectations; and the Company's ability to achieve profitability without further equity or other forms of financing.

The words "believes", "anticipates", "expects", "budget", "scheduled", "estimates", "forecasts", or "intends", or a variation (including negative variations) of such words and phrases, or statements that certain actions, events, or results "may", "could", "would", "might", or "will" be taken, occur or to achieve are all forward-looking statements. Forward-looking statements are based on the reasonable assumptions, estimates, internal and external analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors". Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events, or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

DESCRIPTION OF THE BUSINESS

Overview

Chalice (formerly Golden Leaf Holdings) was incorporated on April 12, 2011 as “Longacre Resources Inc.” (“Longacre”) under the *Business Corporations Act* (British Columbia). Golden Leaf Holdings Inc. (“GLHI”) was incorporated pursuant to the provisions of the *Business Corporations Act* (Ontario) (“OBCA”) on April 8, 2014.

On October 6, 2015, GLHI completed a reverse takeover of Longacre (the “RTO”). Pursuant to the RTO, Longacre, 2470251 Ontario Inc. (“Subco”), a wholly-owned subsidiary of Longacre, and GLHI completed a three-cornered amalgamation. Upon completion of the RTO, common shares of the Company (the “Common Shares”) were issued to former shareholders of GLHI, on a one-for-one basis and the business and shareholders of GLHI became the business and shareholders of the Company. The Company filed Articles of Continuance in Ontario and continued as a corporation governed under the laws of the Province of Ontario under the name “Golden Leaf Holdings Ltd.”

Chalice is a premier, consumer-driven cannabis company specializing in retail, production, processing, wholesale, and distribution. The Company has subsidiaries and contract manufacturing arrangements in Oregon, Nevada, California, and Washington.

On April 8, 2021, the Company announced the acquisition of 80% controlling interest in Fifth & Root, a nationally distributed CBD skincare brand.

Retail

The Company owns and operates a network of seven retail dispensaries in Oregon, six of which operate under the flagship dispensary brand “Chalice Farms” and one of which is branded as “Left Coast Connections.” All seven stores are located within the Portland Metro Area. Chalice has established itself as a trusted and premium brand for health and wellness, as well as for recreational enjoyment. The Company is focused on expanding its retail segment of business and perfecting its Chalice Farms store model that is replicable across different markets. Chalice is dedicated to enhancing customer experience and optionality that results in high customer retention and repeat customers.

On May 19, 2021 the Company announced the closing of its acquisition of 100% of the membership units of SMS Ventures, LLC operating as “Homegrown Oregon” (“Homegrown”). Homegrown is a network of 5 retail stores located in Salem, Albany and Portland, Oregon. Homegrown Oregon reported US\$2.7 million in unaudited revenues for the first quarter of 2021 and Adjusted EBITDA of \$368,000 and the acquisition was funded with equity proceeds raised in excess of the multiple paid by Chalice for Homegrown. This combined with profitability of Homegrown makes the transaction immediately accretive. In addition, Homegrown is run well and the Company believes it can grow topline, optimize labor and fully integrate its flower and branded products into the Homegrown retail selection, further adding benefit to the bottom line.

Production, Supply Chain and Wholesale

The Company produces a variety of branded products through its owned production facilities in Oregon and through manufacturing agreements in other states. Among its top selling items are the Company's Private Stash™ distillate vaporizer cartridges and high dosage single serve Fruit Chew Blast product under both the Golden™ and Chalice™ brands. The Company has also recently launched a line of full spectrum ethanol extract products under the "RXO" brand name and a Live Resin and Distillate vaporizer cartridge under the brand name "Elysium Fields." The Company's branded products are sold in licensed dispensaries throughout Oregon, as well as in several dispensaries in California.

Cultivation

The Company operates a 10,000 square foot facility in Oregon ("Bald Peak"), which produced its first harvest in early 2020. During the first quarter the Company reported \$150,000 in fair market value gain on biological assets related to Bald Peak and the operation continues to be optimized for improved outputs. Bald Peak now supplies a large portion of Chalice Farms flower inventory in its retail stores. In the first quarter of 2021, 6.5% of flower sold in the Company's retail stores was sourced from Bald Peak up from 3.4% in the fourth quarter of 2020. The Company's recently closed acquisition of Homegrown will accelerate the vertical margins generated by Bald Peak across these additional retail stores. The Company may at times sell flower on the Oregon wholesale market and contribute residual biomass from Bald Peak to its extraction operations as available but Bald Peak's primary purpose is to supply high quality, lower cost flower for the Company's retail stores.

Product Development and Marketing

The Company's product development and marketing team focuses on developing high quality, scalable oil and edible products, supported by consumer-conscious branding that appeals to various market segments. The team has developed proprietary manufacturing processes for new products, such as Golden Fruit Chews, and has additional new products in the production pipeline. In June 2019, the Company launched the "Blast Fruit Chew": a single unit, 50mg THC edible with 10 servings. The Blast Chew was novel to the Oregon market. It is competitively priced and is a popular product in the Company's Fruit Chew product line. In December 2019, the Company released its 50mg THC milk chocolate and mocha chocolate blast edibles: a high quality, cost-effective chocolate option in the cannabis market; infused with beneficial fats, like MCT coconut oil. The Company's manufactured oil products are sold under the brand names Chalice™, Golden™, Private Stash™, Elysium Fields™ and Jackpot™. All of the Company's products are independently lab-tested and certified for pesticides, contaminants and potency before being packaged and labelled with detailed information about the levels of THC and CBD contained in each product.

Competitive Conditions

The market for cannabis products is rapidly evolving in certain jurisdictions. In addition, the market for flower and trim has generally been commoditizing in all jurisdictions. As the market sees an increasing number of players in the branded-oil space, the majority of the Company's competitors have been continuing to reduce prices, creating downward price pressure on the Company. The cost of trim and flower in the Oregon market has stabilized and at times increased during the last year, as the glut of producers in the market has been reduced through attrition since 2018.

The Company and its competitors have historically relied upon sources of trim from licensed cannabis producers, but the Company began to supplement its third-party procurement with internally produced trim during 2020. Consumer preference is evolving and focused on more sophisticated products, such as high-quality oils and edibles. The Company is able to meet this consumer demand for its extracted product through its extraction licenses and facilities in Oregon and third-party processors.

United States federal regulations provide that cannabis and cannabis products are federally illegal to possess and may not cross state lines. Thus, in states which have enacted their own cannabis legislation permitting consumption, even though this continues to be a violation of federal law, all cannabis consumed in a state must be cultivated and produced in that same state. In Oregon, low barriers for entering the cannabis industry have at times created oversupply, however during the summer months of 2020, a shortage of cannabis biomass and flower created temporary supply constraints, which are expected to repeat in the 2021 season. The Company's improved output from Bald Peak will allow for significant protection in case of any seasonal shortages of flower supply. The Company has also secured purchasing arrangements with certain farm vendors for reliable supply during the summer months.

Economic Dependence

The Company is not substantially dependent on any single contract. It serves a broad-based platform of dispensaries in the markets it serves. The Company is not dependent on any single contract for the purchase of raw materials that could affect the Company's operations.

The Company derives a significant portion of its revenues from its retail business in Oregon. The Company's retail operations were deemed an essential business and have maintained consistent operations since the beginning of the COVID-19 crisis. The Company expects that this will continue but there is no guarantee that it will. If the Company were forced to close its retail stores and rely on delivery only it could suffer a significant shortfall in revenues and cashflows for a period of time. In addition, if certain of the Companies stores were disrupted by an outbreak of COVID-19 it may cause substantial harm to the Company's business due to the short-term reduction in cash flow.

Foreign Operations

The Company operates solely in the United States as of the date of this report.

Principal Markets

The Company actively operates in the recreational and medical cannabis markets in Oregon and indirectly participates in the California market through product manufacturing and distribution arrangements.

In Oregon, the Company is licensed for cultivation, processing, wholesale distribution and retail. The Company operates seven retail dispensaries in Oregon. The Company also operates as a consultant to Tozmoz, LLC to offer toll processing and white label services in the Oregon market.

In California, the Company currently works with two contract manufacturing partners and utilizes outsourced sales and distribution to manufacture and distribute its Chalice Chews and Elysium Fields products. The Company believes its products are well received in the California market but experienced distribution and sales challenges during the 2020 year. As of the date of this report the Company continues to work with its existing outsourced manufacturing arrangements but is transitioning to a model of internal sales with lower cost outsourced distribution. This will allow the Company to control its brand presence in retail stores and enjoy significantly decreased distribution cost while utilizing industry leading distribution technology services from the leading cannabis distribution platform in California.

During the 2020 fiscal year, the Company placed its Nevada operations on pause as a result of competitive conditions and regulatory challenges. The Company will continue to monitor the competitive conditions in this market which is marked by significant retail purchasing power and vertical integration, a trend the Company believes has only increased during the COVID-19 pandemic.

During 2020 the Company was engaged in royalty, equipment leasing and consulting contracts with a Washington state licensed processing and distribution company to manufacture and distribute the RSO Go™ product line of full spectrum ethanol extracted shatter, vaporizer cartridges and tankers. The same processor was also engaged in a manufacturing and distribution relationship with the Company's Oregon wholesale and manufacturing subsidiary, Greenpoint Oregon, Inc., allowing for sales and distribution of its branded products throughout the Oregon market. At the date of this report the Company is in the process of winding down the arrangement under this co-manufacturing agreement and expects no material amounts will be due related to this arrangement

Legal Proceedings

BMF Washington, LLC and Peter Saladino

The Company filed a lawsuit against BMF Washington LLC ("BMF") and Peter Saladino ("Saladino") on January 21, 2020, in Multnomah County (Oregon) Circuit Court, Case No. 20CV03528, seeking to recover \$6,916,580 in damages. The Company asserted two claims for breach of contract, arising out of the parties' equipment leasing and intellectual property licensing agreements, seeking damages of \$676,580 and \$2,080,000, respectively, with alternative claims against both BMF and Saladino (collectively, the "Defendants") for unjust enrichment related to their improper use of the Company's equipment and intellectual property. The Company is also asserting claims against the Defendants for misappropriation of trade secrets under Oregon and Washington law, seeking additional damages of \$4,160,000.

A receiver was appointed to marshal the assets of BMF and liquidate them to pay the creditors of BMF. Consequently, the Company's claims against BMF are in the process of being dismissed without

prejudice and a Proof of Claim is being sent to the receiver, in an attempt to obtain payment of the damages related to the claims alleged against BMF by the Company.

The claims against Mr. Saladino were removed to the Federal Court for the Western District of Washington and a Magistrate has been appointed to manage and hear the case. Mr. Saladino filed an Answer to the Company's Complaint on May 29, 2020. Mr. Saladino neither admits or denies each allegation in the Complaint individually. He asserts several affirmative defenses. The Answer does not include any counterclaims against the Company.

The Company filed an Amended Complaint against Mr. Saladino on June 18, 2020 adding claims for approximately \$9.3 million, including fraud and deceptive trade practices. On July 27, 2020, Saladino filed a Motion to Dismiss the Company's fraud and deceptive trade practices claims. The Company filed a response to Saladino's Motion to dismiss on August 21, 2020, asking the Court to deny the Motion. The parties are presently waiting to hear if the Magistrate wants oral argument on the Motion, or will issue an order without oral argument.

The parties met for a settlement conference on October 27, 2020. As a result of the settlement meeting, the parties wanted more time to exchange discovery documentation and attempt to settle the case. Pursuant to a stipulated request by the parties, on November 9, 2020, an Order staying the case for 45 days was entered by the Magistrate.

Further stays were granted by the Magistrate to provide the parties with an opportunity to settle the case and on April 6, 2021, an Order of Dismissal was entered by the Court. However, although the parties notified the Court that they had agreed to a settlement in principle and the Order of Dismissal was subsequently entered, with prejudice and without an award of costs to either party, the Order provides that in the event that settlement is not perfected, any party may move to reopen the case within 60 days of the date the Order of Dismissal was entered.

In May 2021, the Company signed a settlement agreement (the "Settlement Agreement") with Peter Saladino and settled the lawsuit the Company filed against him. Pursuant to the terms of the Settlement Agreement, Saladino waived his right to pursue counterclaims against the Company stemming from the transaction. The Company and Saladino have also released all claims against each other and mutually agreed that neither party would be pay any monetary consideration to the other. The case has now been dismissed with prejudice.

Sparks, Nevada

On August 11, 2020, the Company received a demand letter from the attorneys for the landlord of the premises that the Company had been leasing in Sparks, Nevada (the "Premises"). The letter made demand for total damages and costs of \$53,685, consisting of amounts alleged to be due for damage to the premises, unpaid rent and operating costs and attorneys' fees and costs. The Company's position with respect to the unpaid rent and operating costs and a portion of the attorneys' fees is that the lease was validly and timely terminated. The Company is investigating the damage portion of the demand (\$35,660.66).

On October 6, 2020, the Landlord filed a Summons and Complaint in the Second Judicial District Court for Nevada, Washoe County, alleging breach of contract, breach of covenant of good faith and fair dealing and unjust enrichment. The Landlord seeks damages in excess of \$15,000 in an amount to be proved at trial and attorneys' fees.

On April 8, 2021, a Discovery Planning Dispute Conference was filed with the Court. The Company and its Nevada counsel continue to attempt to settle this case.

COVID-19

On March 12, 2020, the World Health Organization (“WHO”) declared a global pandemic as a result of the spread of a virus known as COVID-19. The impacts on global commerce are expected to be far reaching. This has largely limited the Company’s workforce from travelling to its various state specific jurisdictions. This will likely impact demand for the Company’s products in the near term and will also likely impact the Company’s supply chains. It may also impact expected credit losses on trade receivables and may cause staffing shortages and increased government regulations or interventions, which may negatively impact the financial condition or results of the Company. The Company has taken effective steps to ensure frequent sanitization, social distancing, and abstention from duty for employees with illnesses.

As of the date of this report, the Company has experienced minimal disruptions in staffing and none of the Company’s facilities have been forced to close for an extended period of time. The Company experienced significant retail revenue growth during 2020 despite this crisis. Overall demand in Oregon has been consistent through the date of this report and the Company expects that, without further restrictions from the government, its Oregon business will continue to remain open and service its customers. To date the Company has proven to be compliant with the Governors Guidelines and the updated OSHA requirements in response to COVID-19.

Oregon is utilizing a 4-tiered risk level rubric, based on hospitalizations and percent increase in 7-day positive test rates. The levels are Lower Risk, Moderate Risk, High Risk, and Extreme Risk. As of the date of this report, 6 of the companies 7 dispensaries are located in counties with a “High Risk” rating. This will not affect the Company’s retail stores and the Company does not anticipate a significant impact in demand due to these ratings; however, the existence of more widespread cases of COVID-19 generally increases the risk of infection at a Company facility which could require downtime resulting in lost revenue, supply chain disruptions, testing and sanitization costs, and other potential unforeseen liabilities.

The Company has to date demonstrated resilience in managing its business through the pandemic by taking all recommended safety precautions including personal protective equipment, sanitization, working from home when possible and periodic testing. The Company also demonstrated strength by increasing headcount in its retail stores at the beginning of the pandemic rather than trimming headcount and shutting down stores. This decision significantly contributed to the Company’s growth and success in its Oregon business during 2020.

SELECTED FINANCIAL INFORMATION

	For the three months ended	
	March 31, 2021	March 31, 2020
Total revenues	\$ 5,495,455	\$ 4,670,304
Gross profit	2,480,622	1,726,826
Total expenses	2,744,121	3,278,224
Operating loss	(263,499)	(1,551,398)
Comprehensive loss	(4,322,334)	(2,440,166)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding	1,117,610,381	873,783,951
	as of	
	March 31, 2021	December 31, 2019
Total assets	\$ 37,871,976	\$ 28,018,011
Long-term financial liabilities	\$ 18,779,470	\$ 11,170,383

OVERALL PERFORMANCE

The Company generated revenues from continuing operations of \$5.5M and \$4.7M for the three months ended March 31, 2021 and 2020, respectively, an increase of 18% year-over-year. The increase in revenue is primarily due to continued growth in the Company's Oregon businesses, which increased \$1.0M or 23% year-over-year but offset by the shutdown in Nevada which reported \$0.3M of revenues in the first quarter of 2020 compared to \$nil in the first quarter of 2021.

For the three months ended March 31, 2021, gross profit was \$2.5M or 45% of revenue, compared with \$1.7M, or 37% of revenue, for the three months ended March 31, 2020. The year-over-year improvement in gross margin is primarily due to increased revenues and positive margin contribution from the Company's Bald Peak facility.

In Oregon, the Company reported gross margin of 44% for the three months ended March 31, 2021 compared to 45% for the three months ended March 31, 2020. This is driven primarily by a non-recurring audit related reversal of a projected error which occurred in the first quarter of 2020. When comparing these figures prior to this reversal, Q1 2020 would have been 42% gross margin.

During the three months ended March 31, 2021, the Company expended \$0.3M on sales and marketing expenses compared to \$0.5M for the three months ended March 31, 2020 and \$2.1M on general and administration expenses for the three months ended March 31, 2021 compared to \$2.0M for the same period a year ago. The Company continues to increase revenues while maintaining or reducing its cost structure.

During the three months ended March 31, 2021, the Company's reported a comprehensive loss of \$4.3M compared with \$2.4M for the three months ended March 31, 2020. This increase is driven by non-cash fair value losses on warrant liabilities of \$3.0M which are the result of IFRS standards requiring liability account for certain types of financial instruments to be marked to market at each reporting period rather than valued only at issuance due to the exercise price of the underlying derivative differing from the Company's functional currency. Management believes this distinction based on currency is not reflective of the actual capital economics of these instruments and wishes to underscore that if these warrants were denominated in US dollars, they would not be subject to fair value accounting. Furthermore, this is a non-cash liability and a non-cash expense which would only be settleable in shares. Adjusting for these significant non-cash costs, net operating loss improved by \$1.1M, demonstrating the Company continues to improve cost structure and profitability. This is also evidenced by Adjusted EBITDA results.

The Company's total assets were \$37.9M on March 31, 2021 (December 31, 2020: \$28.0M). The Company's long-term financial liabilities were \$18.8M on March 31, 2021 (December 31, 2020: \$11.2M).

The Company restructured its convertible debentures due November 16, 2021 effective January 21, 2021 resulting in a reduced conversion price of US\$0.06 and an extended maturity of 1 year to November 16, 2022.

The Company's working capital position at March 31, 2021 is approximately \$9.9M. Shareholders' equity after the deficit was \$12.8M on March 31, 2021 (December 31, 2020: \$5.5M).

PRO-FORMA RESULTS

On a pro-forma basis, had Homegrown been included, first quarter 2021 revenues for GLH would have been US\$8.2 million with a 47% gross margin and Adjusted EBITDA¹ of approximately US\$722,000.

Profit and Loss								
	Jun 2019	Sep 2019	Dec 2019	March 2020	June 2020	Sep 2020	Dec 2020	Mar 2021
Product sales	\$ 3,931,355	\$ 4,345,907	\$ 3,449,555	\$ 4,239,582	\$ 5,312,655	\$ 5,765,578	\$ 5,293,704	\$ 5,033,314
Royalty and other revenue	8,137	9,015	80,044	430,722	204,078	430,086	232,751	462,141
Total Revenue	3,939,492	4,354,922	3,529,599	4,670,304	5,516,733	6,195,664	5,526,455	5,495,455
Cost of sales expense	2,481,111	2,895,950	3,557,199	2,943,478	4,223,719	4,117,730	3,866,517	3,014,833
Gross profit (loss)	1,458,381	1,458,972	(27,600)	1,726,826	1,293,014	2,077,934	1,659,938	2,480,622
Total expenses	3,718,726	3,716,197	4,578,840	3,278,224	3,053,874	2,975,411	3,035,391	2,744,121
Interest expense, net	757,150	559,361	668,645	551,101	547,743	350,265	833,226	429,221
Transaction costs	2,114	125,612	270,568	-	41,051	127	19,986	34,620
Loss on extinguishment	109,856	-	-	-	-	-	-	-
(Gain) loss on disposal of assets	-	(4,024)	94,187	7,822	310,017	(10,139)	(14,529)	-
Loss on impairment	-	-	18,735,818	-	-	-	-	-
Other (income) loss	170,679	(4,684)	37,842	(28,439)	(9,781)	70,249	(102,813)	84,466
(Gain) loss on debt modification	-	(312,083)	-	-	-	-	-	172,956
(Gain) loss on debt extinguishment	-	(1,978,080)	-	-	-	-	-	88,079
(Gain) loss on changes in fair value of warrant liability	(82,101)	(23,371)	44	-	-	-	-	2,974,493
(Gain) loss on change in fair value of liabilities	155,446	351,088	95,215	-	-	565,328	356,809	-
Loss before income taxes	(3,263,633)	(971,044)	(24,508,759)	(2,081,882)	(2,649,890)	(1,873,307)	(2,468,132)	(4,047,334)
Income tax expense	4,300	-	796,537	358,284	304,932	848,379	(555,996)	275,000
Net loss from continuing operations	(3,267,933)	(971,044)	(25,305,296)	(2,440,166)	(2,954,822)	(2,721,686)	(1,912,136)	(4,322,334)
Net income (loss) from discontinued operations	(123,195)	(213,800)	(13,454,438)	-	-	-	-	-
Net loss	(3,391,128)	(1,184,844)	(38,759,734)	(2,440,166)	(2,954,822)	(2,721,686)	(1,912,136)	(4,322,334)
Other comprehensive income	-	-	125,930	-	-	-	-	-
Comprehensive loss	(3,391,128)	(1,184,844)	(38,633,804)	(2,440,166)	(2,954,822)	(2,721,686)	(1,912,136)	(4,322,334)
Basic and diluted loss per share	(0.01)	(0.00)	(0.05)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of common shares outstanding	589,243,324	685,518,103	816,581,116	859,890,063	861,790,774	881,420,646	892,297,496	1,117,610,381

Discussion of Operating Segments

For the three months ended			
March 31, 2021	Oregon	Other	Consolidated
Product sales	\$ 4,934,323	\$ 98,991	\$ 5,033,314
Royalty and other revenue	430,441	31,700	462,141
Total Revenue	5,364,764	130,691	5,495,455
Inventory expensed to cost of sales	3,158,836	22,089	3,180,925
Gross margin, excluding fair value items	2,205,928	108,602	2,314,530
Fair value changes in biological assets included in inventory sold	(84,329)	-	(84,329)
Gain on changes in fair value of biological assets	(81,763)	-	(81,763)
Gross profit	\$ 2,372,020	\$ 108,602	\$ 2,480,622

As at March 31, 2021

Assets	\$ 10,966,376	\$ 26,905,600	\$ 37,871,976
Liabilities	\$ 6,348,073	\$ 18,724,285	\$ 25,072,358

For the three months ended			
March 31, 2020	Oregon	Other	Consolidated
Product sales	\$ 3,940,110	\$ 299,472	\$ 4,239,582
Royalty and other revenue	430,722	-	430,722
Total Revenue	4,370,832	299,472	4,670,304
Inventory expensed to cost of sales	2,404,977	559,215	2,964,192
Gross margin, excluding fair value items	1,965,855	(259,743)	1,706,112
Gain on changes in fair value of biological assets	(20,714)	-	(20,714)
Gross profit	\$ 1,965,855	\$ (259,743)	\$ 1,726,826

As at December 31, 2020

Assets	\$ 10,415,841	\$ 17,602,170	\$ 28,018,011
Liabilities	\$ 6,361,156	\$ 16,184,657	\$ 22,545,813

Oregon Operations

For the quarter ended March 31, 2021, the Company reported total Oregon revenues of \$5.4M, compared to \$4.4M in the same period in 2020, an increase of \$1.0M or 23%, driven by growth in both the retail and wholesale businesses. The segment reported gross profit of \$2.4M or 44% for the three months ended March 31, 2021, compared to \$2.0M or 45% for the three months ended March 31, 2020, for an increase of \$0.4M or 21% compared to the prior year. The decrease in gross profit margin is related to a non-operational reversal of a projected error from the 2019 audit. Correcting for this reversal, gross profit margin would have been 42%, an increase of 3% year over year.

The Company's Oregon retail stores recorded \$3.7M in sales for the three months ended March 31, 2021 compared to \$3.1M for the same period a year ago, an increase of \$0.6M or 19% year-over-year due to a high-quality retail store experience and effective discounts and promotions, building a strong customer base.

The Company's Oregon wholesale sales were \$1.7M for the three months ended March 31, 2021, compared to \$1.3M in the same period last year, an increase of \$0.4M or 31%. This was driven by improved inventory management and production consistency, increased market penetration, increased average order size per customer as well as the addition of revenue from the Company's third-party processing and white label manufacturing business through its consulting agreement with Tozmoz.

Nevada Wholesale

As noted earlier the Company has placed its Nevada operations on pause to monitor developments in the Nevada market as the COVID-19 pandemic progresses. As such the Company is no longer reporting Nevada as a segment and any trivial costs associated with the Nevada operation will be reported under "Other."

Other

The Company's Other segment consists primarily of Corporate expenses in addition to geographical markets which management does not consider to be at a level of materiality to report as separate segments.

Adjusted EBITDA

Adjusted EBITDA		
For the three months ended		
	March 31, 2021	March 31, 2020
Loss before income taxes	\$ (4,047,334)	\$ (2,081,882)
Adjustments:		
Net impact, fair value of biological assets	(81,763)	(20,714)
Depreciation and amortization	461,625	831,230
Fair value changes on debt and equity instruments	3,235,528	-
Share based compensation	69,050	129,579
Interest expense, net	429,221	551,101
Transaction costs	34,620	-
Nevada curtailment expenses and other ⁽¹⁾	73,252	-
Start-up costs ⁽²⁾	110,528	-
Impairments and other	84,466	(20,617)
Adjusted EBITDA income (loss)	\$ 369,193	\$ (611,303)

⁽¹⁾ Losses experienced in Nevada due to unexpected shut down and facility abandonment due to COVID-19

⁽²⁾ Write-off of significant start up costs related to the Company's California business

Adjusted EBITDA is a non-IFRS financial measure and does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. See "Non-IFRS Measure" below for additional information.

For the three months ended March 31, 2021, Adjusted EBITDA income was \$369,193 compared to a loss of \$611,303 for the three months ended March 31, 2020. This is the first time in Company's history it has reported positive adjusted EBITDA for any reporting period. This improvement was primarily due to increased revenue and effective cost containment initiatives and efficiencies in the current quarter largely driven by decreased general and administrative expenditures. These metrics underscore the continued momentum of the financial turnaround of Chalice.

Non-IFRS Measure

Adjusted EBITDA is a supplemental, non-GAAP financial measure. EBITDA is defined by the Company as earnings before interest, income taxes, depreciation and amortization. Adjusted EBITDA, as presented, additionally excludes impairment charges, extraordinary losses, unexpected employee settlement costs and start-up costs, all other non-cash items and one-time transaction fees. Management believes providing Adjusted EBITDA is useful to investors' understanding and assessment of the Company's ongoing continuing operations and prospects for the future and it is used by the financial community to evaluate the market value of companies considered to be in similar businesses. Since Adjusted EBITDA is not a measure of performance calculated in accordance with IFRS, it should not be considered in isolation of, or as a substitute for, measures of performance prepared in accordance with IFRS. Adjusted EBITDA, as calculated and reconciled in the table above, may not be comparable to similarly titled measures employed by other companies. In addition, Adjusted EBITDA is not necessarily a measure of our ability to fund our cash needs.

Strategic Direction

Management believes that a trusted, internationally-recognized brand targeting customers new to cannabis products and services will increase the coming wave of new users. These new users are expected to seek health and wellness benefits as restrictions on legal cannabis use relax over the next three years. Building the Chalice Farms brand leverages the Company's dispensary locations, wholesale distribution network, high-touch customer service approach, and management expertise.

The Company's key priorities to achieve for fiscal year 2021 include:

- Strong organic growth;
- Successful integration and growth from any completed acquisitions;
- Improved financial performance through vertical integration;
- Improved working capital discipline; and
- Industry leading team.

Liquidity and Capital Resources

Cash used in operating activities for the three months ended March 31, 2021 was \$0.3M, an improvement of \$1.4M or 82% compared to the prior year. With the recent infusion of working capital the Company has executed a disciplined effort to pay down over extended payables and build inventory levels to support its recently announced retail expansion and to support continued growth in Oregon wholesale.

The Company is focused on management of liquid assets on hand, optimization of its current operations and strategic capital investment initiatives. As mentioned above, the Company's management has instilled stringent efficiency measures to help reduce general and administrative expenses and to assist in improving the Company's overall performance. Additionally, to better its inventory-to-sales ratio, the Company manages its inventory turns at the SKU level and is implementing new processes throughout the supply chain.

Cash used in investing activities during the three months ended March 31, 2021 was \$0.1M compared to \$nil of cash provided by investing activities during the quarter ended March 31, 2020.

Cash provided by financing activities was \$10.0M for the three months ended March 31, 2021 compared to cash used in financing of \$0.2M for the three months ending March 31, 2020.

In January 2021, the Company closed on a non-brokered private placement financing and issued 117.1 million units priced at C\$0.03 per unit for gross proceeds of C\$3.3 million. Each unit is comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable to acquire one common share at an exercise price of C\$0.06 per warrant share for a period of 24 months from the closing. The units will have a hold period of four months and one day from the date of issuance. Finder's fees of 5% cash and 5% finder's warrants, each such warrant entitling the holder to acquire one common share for C\$0.06 for a period of 24 months, were paid on certain subscriptions. In connection with the private placement, the Company also issued 8.1 million units at C\$0.05 per share in lieu of unpaid compensation to certain officers and directors, for a total of C\$404,528.

In March 2021, the Company closed on a second non-brokered private placement financing and issued 110.4 million units priced at C\$0.065 per unit for aggregate gross proceeds of C\$10.4 million. Each unit is comprised of one common share of the Company and one full common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of C\$0.10 for a period of 24 months from the date of issuance thereof. In connection with the non-brokered placement the Company also issued 3.3 million finders warrants to eligible finders. These warrants are exercisable at C\$0.10 per common share at any time up to 24 months following closing.

As of March 31, 2021, the Company had \$10.5M of cash on hand (December 31, 2020: \$0.9M). With the addition of the Homegrown Oregon retail stores the Company expects to generate sustainable cash flows from operations and Adjusted EBITDA. Management expects these cash flows to be sufficient to meet the Company's current internal forecast for organic growth. There can be no assurance that these cash flows will be sufficient to fund future business acquisitions or growth into new markets and the Company may require additional external capital for certain growth initiatives.

Chalice Earn-out

In November 2020, the Company reached an agreement with the former Chalice owners to restructure the consideration payable. Under the new terms, \$2,500,000 of the cash consideration was immediately converted into 41,666,667 Common Shares. The remaining \$2,500,000 of the cash obligation will be paid on an installment plan carrying 6% interest to be paid over 60 months in equal installments of \$48,332 per month commencing May 2, 2022. The existing equity component remains unchanged and is due on the original maturity on May 2, 2022. Shares will be calculated based on a 30-day trailing VWAP and held in escrow to be released over 60 months commencing May 2, 2022. As a condition of the restructuring, the Company agrees to either attain positive cash flow or raise US\$5,000,000 within 12 months from the execution of the agreement. If the Company fails to meet either the cashflow requirement or the minimum equity raise of \$5,000,000, within 12 months of the agreement, it is required to issue a further 62,500,000 shares. In March 2021, the Company closed a second non-brokered private placement, raising C\$10,400,000 (Note 25), which is in excess of the requirement to raise \$5,000,000 under the terms of the restructuring agreement related to the consideration payable.

The table below highlights the Company's key liquidity and capital resources information:

	March 31, 2021	December 31, 2020
Current assets	\$ 16,198,723	\$ 6,074,306
Current liabilities	6,292,888	11,375,430
Working capital	9,905,835	(5,301,124)
Long-term debt and notes payable*	12,068,036	6,331,603
Share capital	161,085,272	149,754,502
Deficit	(154,957,637)	(150,683,854)

The Company's schedule of contractual cash flows is as below:

	Carrying amount	Contractual cash flows	Under 1 year	1-3 years	3-5 years	More than 5 years
As at March 31, 2021						
Trade and other payables	\$ 3,652,595	\$ 3,652,595	\$ 3,652,595	\$ -	\$ -	\$ -
Lease liabilities	5,047,544	6,518,999	1,226,930	2,386,573	2,046,901	858,595
Other loans and borrowings	120,104	120,104	120,104	-	-	-
Convertible debt	2,805,895	4,044,735	-	4,044,735	-	-
Consideration payable	1,872,654	2,648,210	-	-	-	2,648,210
Total	\$ 13,498,792	\$ 16,984,643	\$ 4,999,629	\$ 6,431,308	\$ 2,046,901	\$ 3,506,805

Going Concern

The Company wishes to emphasize the importance of the going concern assumption, which can be referenced in Note 2 of the Consolidated Financial Statements.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that would potentially affect current or future operations or the financial condition of the Company.

Related Party Transactions

Key management of the Company are its Board of Directors and certain members of executive management. Key management personnel remuneration for the three months ended March 31, 2021 and 2020 includes the following expenses:

	For the three months ended March 31,	
	2021	2020
Salaries, commissions, bonuses and benefits	\$ 109,154	\$ 270,911
Consulting fees	88,720	183,517
Termination benefits	-	30,779
Stock compensation, including warrants and shares	30,671	124,184
	\$ 228,545	\$ 609,391

In addition, the Company issued the following stock options to executive management and directors in the first quarter of fiscal 2021:

Date	Title	Shares	Exercise Price (C\$)
February 2021	CFO	4,000,000	\$ 0.065
February 2021	Directors	20,000,000	\$ 0.065
March 2021	Directors	6,000,000	\$ 0.065

In the second half of 2020, the Company had several members of its senior leadership team on reduced salaries in the ranges of 3%-85% of base pay in order to allow time for its various business units to mature and grow to a level of contribution to sustain proper staffing levels. This resulted in approximately \$70,000 in monthly cash savings. During January 2021, the Company issued shares and warrants to several members of management for the settlement of this debt. Management actively monitored performance of the businesses and, effective in the first quarter of fiscal 2021, management returned to regular compensation levels.

In September 2019, as part of their new roles, John Varghese and Jeff Yapp each subscribed to 26,861,622 restricted common shares at C\$0.06 per share, on a non-brokered basis, for a total of 53,723,244 common shares. The issuance of these shares was assisted through an interest-bearing, five-year loan to the executives. Of the total shares, half were immediately vested and the other half vest based on meeting certain Company performance targets. As of March 31, 2021, these shares have not been issued. The arrangement was accounted for as stock-based compensation in accordance with IFRS 2 - Share-based Payments, but are not included as stock options issued and outstanding in the tables above, nor have the shares been issued from treasury. Due the subsequent modification in May 2021 discussed below, all vesting conditions have been waived and all shares will be issued with restrictive legends upon execution of final agreements.

In May 2021 this arrangement was extended and modified. The Company has agreed to issue, on a non-brokered basis, an aggregate of 33,845,336 common shares, at C\$0.06 per share, to certain executives and directors, being 4,861,238 to Executive Chairman John Varghese and 4,761,238 to CEO Jeff Yapp, and 24,222,860 to Lead Director Rick Miller. The loan to Mr. Varghese is subject to limited recourse. Each of Messrs. Varghese and Yapp had previously acquired common shares on an assisted basis will, upon issuance, hold 31,722,860 and 31,622,860 shares respectively through these arrangements. All common shares to be acquired do not have any vesting condition, and all shares previously acquired that had vesting conditions, will have such conditions waived. The purpose of the issuances is to provide the executives with a more significant financial stake in the success of the Company. The issuances have

been approved by the disinterested directors of the Company. The Company has reserved these shares for issuance and will issue shares and record the loans receivable during the 2nd quarter of 2021.

Refer to Note 16 of the Interim Condensed Consolidated Financial Statements.

Future Accounting Pronouncements

Refer to Note 5 of the Interim Condensed Consolidated Financial Statements.

Financial Instruments

The Company carries a number of financial instruments as part of its operations. It is management's opinion that the Company is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed. Refer to Note 19 of the Consolidated Financial Statements.

Fair value

The carrying amounts of cash, accounts receivable, other receivables, accounts payable, accrued liabilities, and interest payable approximate their fair values because of the short-term maturities of these financial instruments.

The carrying value of long-term debt approximates fair value upon initial recognition. At March 31, 2021, the carrying value of long-term debt approximates fair value based on current market rates for similar instruments.

The following classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are not based on observable market data

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

The Company's principal financial assets are cash held at highly-rated financial institutions and accounts receivable. The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the Consolidated Statement of Financial Position are net of allowance for doubtful accounts, estimated by the management of the Company based on its assessment of the current economic environment and the credit worthiness of its customers.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not subject to any interest rate volatility as its long-term debt instruments are carried at a fixed interest rate throughout their term.

Liquidity Risk

The Company's objective is to have sufficient liquidity to meet its liabilities when due. The Company monitors its cash balances and cash flows generated from operations to meet its requirements. To ensure the Company has sufficient liquidity to meet its obligations, the Company may issue common shares and debt in the future.

Default Risk

As of the date of this report the Company has convertible debentures with the face value of C\$4.4M due in November 2022. The Company cannot guarantee it will have sufficient cash reserves to settle these obligations when due.

Biological Assets

The Company's biological assets consist of cannabis plants. Biological assets are valued in accordance with IAS 41 *Agriculture* and are presented at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Since actively traded commodity market prices are not available for cannabis plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3). Unrealized fair value changes on growth of biological assets are recorded in a separate line on the Consolidated Statement of Operations.

For more information on biological assets, refer to Note 6 of the Interim Condensed Consolidated Financial Statements.

Subsequent Events

On May 19, 2021, the Company closed on its purchase of 100% ownership in SMS Ventures, LLC, dba Homegrown Oregon ("Homegrown"), a chain of five retail dispensaries located in Portland, Salem and Albany, Oregon. Total consideration was approximately \$9.75 million, consisting of \$6 million in cash at closing, approximately 37 million common shares of the Company priced at a price of C\$0.065, plus a secured promissory note for US\$1.75 million carrying interest of 8% interest, payable over 48 months with interest only for the first year, with monthly principal payments to start upon the one-year anniversary of closing.

On April 8, 2021 the Company announced its acquisition of an 80% interest in Fifth & Root Inc. a CBD skincare line for total consideration of \$1,687,500 consisting of \$250,000 in cash and up to 30,666,666 common shares of GLH common shares.

OVERVIEW OF UNITED STATES REGULATION OF CANNABIS

On February 8, 2018 the CSA published a revised staff notice setting out the CSA’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States (“Staff Notice 51-352”). Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views Staff Notice 51-352 favorably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulation of existing operations and strategic business plan as well as the Company’s ability to pursue further investment and opportunities in the United States.

The following chart is a summary of the Company’s material assets and investments. References to “Direct”, “Indirect” or “Ancillary” classifications of each asset or investment have the meanings ascribed thereto in the Staff Notice 51-352. All of the Company’s investments that give the Company “Direct”, “Indirect” and “Ancillary” involvement in the U.S. marijuana industry are included in the table below.

Asset Name, Date of Organization	Description	Type of Relationship, Jurisdiction, Classification
Greenpoint Holdings Delaware, Inc. <i>May 2014</i>	Greenpoint Holdings Delaware, Inc. is a holding company which acts as the parent to all U.S. based operating subsidiaries.	<u>Type of Relationship:</u> Greenpoint Holdings Delaware, Inc. is a wholly owned subsidiary of Golden Leaf Holdings, Inc. <u>Jurisdiction:</u> Oregon, California, Nevada <u>Classification:</u> Direct
Greenpoint Oregon Inc. <i>May 2014</i>	Greenpoint Oregon Inc. holds producer, processor and wholesale licenses in Oregon. The company’s primary facilities are located in Portland, Oregon.	<u>Type of relationship:</u> Greenpoint Oregon Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware, Inc. <u>Jurisdiction:</u> Oregon <u>Classification:</u> Direct
CFA Retail, LLC <i>January 2016</i>	CFA Retail, LLC is a network of cannabis retail dispensaries located in Oregon operating under “ <i>Chalice Farms</i> ” and “ <i>Left Coast Connections</i> ”	<u>Type of relationship:</u> CFA Retail, LLC is a wholly-owned subsidiary of Greenpoint Holdings Delaware, Inc. <u>Jurisdiction:</u> Oregon <u>Classification:</u> Direct
SMS Ventures, LLC <i>January 2016</i>	Five dispensaries in Oregon operating as “Homegrown Oregon”	<u>Type of relationship:</u> SMS Ventures, LLC is a wholly-owned subsidiary of Greenpoint Holdings Delaware, Inc. <u>Jurisdiction:</u> Oregon <u>Classification:</u> Direct
Greenpoint Nevada, Inc. <i>May 2017</i>	Greenpoint Nevada, Inc. is an indoor high-quality cannabis cultivation, production/manufacturing facility and a wholesale operation. Greenpoint	<u>Type of relationship:</u> Greenpoint Nevada Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc.

	Nevada, Inc. is located in Sparks, Nevada. The Company has vacated this facility as the date of this report and has placed its licenses in permanent hold status.	<u>Jurisdiction:</u> Nevada <u>Classification:</u> Dormant. The Company currently does not hold active cannabis licenses in Nevada.
Greenpoint Equipment Leasing LLC (Oregon) <i>January 2016</i>	Greenpoint Equipment Leasing (OR) is located in Portland, Oregon and leases equipment to operating subsidiaries in Oregon and Nevada.	<u>Type of relationship:</u> Greenpoint Equipment Leasing (OR) is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction:</u> Oregon and Nevada <u>Classification:</u> Ancillary
Greenpoint Real Estate LLC (Oregon) <i>September 2015</i>	Greenpoint Real Estate (OR) leases real property from landlords and sublets to operating subsidiaries in Oregon and Nevada. The company is located in Portland, Oregon.	<u>Type of relationship:</u> Greenpoint Real Estate (OR) is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction:</u> Oregon and Nevada <u>Classification:</u> Ancillary
Greenpoint Workforce, Inc. <i>June 2017</i>	Greenpoint Workforce, Inc. employs all US employees. The company is located in Portland, Oregon.	<u>Type of relationship:</u> Greenpoint Workforce, Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction:</u> Oregon, California, Nevada <u>Classification:</u> Ancillary
GL Management Inc. <i>August 2014</i>	GL Management Inc. owns and licenses brands and intellectual property in Nevada. The company is located in Sparks, Nevada.	<u>Type of relationship:</u> GL Management Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction:</u> Nevada <u>Classification:</u> Ancillary
CF Greenpoint CA, Inc. <i>May 2018</i>	CF Greenpoint CA, Inc. manages all non-retail operations in California. These operations are carried on by the Company's arm's length partners.	<u>Type of relationship:</u> CF Greenpoint CA, Inc. is a wholly-owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction:</u> California <u>Classification:</u> Ancillary

U.S. Federal Regulatory Environment

The cultivation, production, distribution and sale of cannabis and cannabis extracts is illegal under U.S. federal law, and it is listed as a Schedule I substance under the U.S. Controlled Substances Act. A Schedule I drug or substance is deemed to have a high potential for abuse, to have no accepted medical use in the United States, and to lack an acceptable safe use of the drug under medical supervision. The Company believes the U.S. Controlled Substances Act categorization as a Schedule I drug is not reflective of cannabis' medicinal properties and numerous related studies support rescheduling. Over the past decade, cannabis policy has been morphing towards legalization and liberalization of cannabis laws.

In 2009, the U.S. federal government's Department of Justice adopted guidelines to deprioritize the use of federal resources to prosecute people with serious illnesses or their caregivers who are complying with state medical marijuana laws.

In September 2018, Congress approved the Medical Cannabis Research Act. This bill requires the Department of Justice and former Attorney General, Jefferson B. Sessions, III, to issue additional cultivation licenses to grow marijuana for federal research. The bill also clarifies that Department of Veterans Affairs ("VA") doctors can discuss medical marijuana with their patients and can refer them to participate in scientific studies on the drug's effects.

The District of Columbia ("D.C.") and 36 U.S. states, including the states of Oregon, Nevada and California, have legalized cannabis for medical use. D.C. and 15 U.S. states, including the states of Oregon, Nevada and California, have also legalized adult recreational use of cannabis.

As discussed above, marijuana remains a Schedule I substance under U.S. federal law. However, the Treasury Department's Financial Crimes Enforcement Network ("FinCEN") has issued guidance advising prosecutors of money laundering and other financial crimes not to focus their enforcement efforts on banks that serve marijuana-related businesses ("MRBs"), so long as that business is legal in the bank's respective 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). This guidance was published on February 14, 2014 and requires banks providing such services to monitor strict compliance with FinCEN's guidance. This requires investment in monitoring and compliance staff, and large national banks don't appear to want to make such an investment, nor expose themselves to potential risk of prosecution from non-compliant businesses they might serve. At the end of 2020 FinCEN reported 684 banks and financial institutions doing business with MRB's.

The few credit unions who have agreed to service marijuana businesses are limiting those accounts to no more than 5% of their total deposits to avoid creating a liquidity risk. Because 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 needs of their other customers.

In March 2019, a congressional committee approved the Secure And Fair Enforcement (SAFE) Banking Act. Draft legislation of the SAFE Banking Act received a historic hearing in the House Consumer Protection and Financial Institutions Subcommittee in February 2019, where the National Cannabis Industry Association submitted written testimony along with the personal stories about the burdens and safety concerns created by the current banking situation from nearly 100 cannabis industry professionals. On September 25, 2019 the U.S House of Representatives passed the landmark legislation to reform federal cannabis laws and reduce the public safety risk in communities across the country. H.R. 1595, the SAFE Banking Act of 2019 passed by a vote of 321 to 103. This bill generally prohibits a federal banking regulator from penalizing a depository institution for providing banking services to a legitimate marijuana-related business. The Company believes this progressive banking reform for the U.S. cannabis industry reflects a positive trajectory for marijuana banking reform.

The Marijuana Opportunity Reinvestment and Expungement Act, also known as the MORE Act, is a proposed 2019 United States federal legislation to legalize cannabis and expunge prior cannabis related convictions that was introduced into the U.S. House of Representatives on July 23, 2019. This would remove cannabis from the Controlled Substances Act and impose a 5% tax on cannabis and cannabis products manufactured in or imported into the United States. This tax will be collected by the Treasury

of the United States to create a trust fund to be known as the Opportunity Trust Fund. The trust funds the Act would create include the Community Reinvestment Grant, which would provide funding for services such as job training, re-entry services and legal aid; the Cannabis Opportunity Grant, which would provide funds to assist small businesses in the cannabis industry; and the Equitable Licensing Grant, which minimizes barriers to gain access to marijuana licensing and employment for those most impacted by the so-called war on drugs. The act would also establish a Cannabis Justice Office within the Department of Justice Office of Justice Programs, responsible for administering the grants. On December 4, 2020 the U.S. House of Representatives passed this historic legislation by a vote of 228-164.

Both the MORE and SAFE Banking Acts have yet to receive action in the U.S. Senate. However, in late 2020 incoming Senate Majority Leader Charles Schumer made multiple comments suggesting that passage of these bills and large-scale federal legalization of cannabis are on his agenda. The Company continues to monitor both of these bills and the general status of cannabis legalization at the U.S. federal level.

Compliance of United States Operations

Chalice, via its subsidiaries, is compliant with all applicable licensing requirements and the respective U.S. state regulatory frameworks in Oregon and Nevada. The Company is currently licensed to operate as a producer, processor, wholesaler, and retailer in multiple jurisdictions within Oregon, and as a cultivator and product manufacturer in Nevada, though the Nevada licenses have been voluntarily placed in an administrative hold. The Company has not been served any notices of non-compliance by any state regulatory body. The Company maintains multiple banking relationships in Oregon and Nevada. These relationships provide the Company the ability to safely and lawfully pay for any and all expenses that should arise from the day-to-day operations of its licenses, including maintaining underlying permits and approvals to keep the licenses compliant. The Company also engages armored car services for cash pickup and management in all jurisdictions, further ensuring monetary compliance and safety. In California, the Company does not itself operate any material business or carry on any regulatory business, nor does it have any investees. The Company receives payments from licensing its brands. The Company believes its manufacturing and distribution are in compliance with their respective licenses and with local and state regulatory regimes.

The Company utilizes the U.S. Department of Justice “7 Elements” approach to a Compliance Department. Those 7 elements are, namely: Implementing written policies, procedures, and standards of conduct; Designating a Compliance Officer and Committee; Conducting Effective training and education; Developing effective lines of communication; Conducting internal monitoring and auditing; Enforcing standards through well-publicized disciplinary guidelines; and Responding promptly to offenses with corrective action.

The Company has a centralized Compliance Department consisting of the Compliance Officer and staff. Staff is responsible for monitoring and auditing all licensed activities in all jurisdictions and performs local site visits in order to validate compliance with local statutes. This monitoring includes but is not limited to: seed-to-sale records and accuracy, standard operating procedures, required signage and public health warnings, local permitting and zoning, license approvals and renewals, packaging, labeling, and marketing, and all communication with regulatory bodies. External legal advice is obtained on an as needed basis with respect to discrete questions.

Results of audit activities are discussed in committee with Senior Leadership from the business unit in question. Where updates to policies, procedures, or standards are required, Compliance Staff work to draft these policies and generate effective training and education for affected staff. The Compliance Officer and staff also work directly with Human Resources to develop disciplinary plans and guidelines when audit findings dictate. Where required, Human Resources will conduct corrective action with employees in violation of statute, policy, or procedure.

The Company asks business unit managers to maintain an “open door” policy for employees to report concerns. Management has also made available an anonymous reporting solution – Lighthouse Services – where employees may anonymously report compliance or HR concerns.

All sites where cannabis is cultivated, produced, stored or sold have 24-hour video surveillance at all points of ingress or egress, and in all areas where mature marijuana plants, immature plants, usable marijuana, cannabinoid concentrates, extracts or products may be present on the licensed facility.

The Compliance Department monitors, assesses, and takes a forward-facing position concerning changing state regulations, federal guidance, and banking challenges in all current and future jurisdictions.

Currently, the Company utilizes two banks in Canada and two banks in the United States. The Company maintains close ties and strong relationships with its current bankers and continues to build relationships with other banks and credit unions servicing the marijuana industry.

U.S. Enforcement Proceedings

In January 2018, the former U.S. Attorney General, Jefferson B. Sessions, III, announced the rescission of the “Cole Memorandum” which escalated the need for policy reform at the federal level. The Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws, provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance in January 2018 created a vacuum of guidance for enforcement agencies and the Department of Justice (“DOJ”). Multiple legislators believe that the rescission of the Cole Memorandum invites an opportunity for Congress to pass more definitive protections for cannabis businesses in states with legal cannabis programs during this Congress. In response, in January 2019, Representative Luis J. Correa introduced the Sensible Enforcement of Cannabis Act of 2019. This legislation would essentially revive the Obama-era marijuana enforcement memo that was rescinded by then U.S. Attorney General Jeff Sessions.

In April 2018, as part of an agreement with Colorado Senator Cory Gardner, then President Trump publicly committed to respect states’ rights as it pertains to marijuana laws. Gardner, along with Senator Elizabeth Warren have introduced (and recently reintroduced) the Strengthening the Tenth Amendment Through Entrusting States (STATES) Act to effectuate this agreement. Former Attorney General William Barr stated publicly that he would prefer this bill to the current situation.

The Rohrabacher-Farr amendment was passed by the U.S. House of Representatives in May 2014. The amendment prohibits the Department of Justice, which includes the Drug Enforcement Administration, from using funds to interfere with activities governed by laws that implement state medical marijuana laws. The amendment was then included in the federal spending bill passed on December 15, 2014 marking the first time in history that the United States Congress eased up on the potential federal prosecution of medicinal cannabis cultivators, sellers and patients. The bill works to protect the medical marijuana programs in the 36 states that have legalized marijuana for medical purposes. In July 2020, a

House subcommittee introduced a base appropriations bill with the amendment included. The amendment was then renewed through a series of stopgap spending bills and on December 27 the amendment was renewed through the signing of the FY 2021 omnibus spending bill, effective through September 30, 2021.

The most important case involving the Rohrabacher-Farr amendment took place in the Federal 9th Circuit Court. In the August 2016 decision of *U.S. vs. McIntosh*, the court held that the Rohrabacher-Farr Amendment prohibits the federal prosecution of conduct that is allowed by the state's medical cannabis law. In the opinion, Judge Diarmuid F. O'Scannlain wrote: "We therefore conclude that, at a minimum, Section 542 prohibits DOJ from spending funds from relevant appropriations acts for the prosecution of individuals who engaged in conduct permitted by the State Medical Marijuana Laws and who fully complied with such laws." The opinion remanded all of the cases that included in the appellate ruling back to the trial court requiring an evidentiary hearing be held on the issue of whether the alleged conduct violated state law.

Congress has used a rider provision in the FY 2015, 2016 and 2017 Consolidated Appropriations Acts (currently the "Leahy Amendment") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment was included in the FY 2018 budget passed on March 23, 2018, meaning that the Leahy Amendment remained in effect until September 30, 2018, when FY 2019 began. On May 17, 2018, the House Appropriations Committee approved inclusion of the Rohrabacher-Farr amendment in the Commerce, Justice, Science ("CJS") appropriations bill for fiscal year 2019, in a voice vote led by sponsor Rep. David Joyce. The Senate Appropriations Committee followed on June 12 by approving a base CJS appropriations bill with the amendment included. On June 20, 2019, the House voted 267-165 to approve a broader amendment that in addition to protecting state medical cannabis programs also protected recreational. On September 26, 2019, the Senate Appropriations Committee declined to take up the broader amendment but did approve the Rohrabacher-Farr amendment. In July of 2020, the Rohrabacher-Farr amendment was renewed as part of a stopgap spending bill, in effect through December 11, 2020. Legal professionals have interpreted these bills as being preventative on the federal government's ability to prosecute individuals when those individuals are compliant with state law. However, due to the continued federal prohibition, the courts have observed that if at any time congress chooses to fully fund prosecutorial proceedings in reference to the Controlled Substances Act, any individual or business could be prosecuted for violations of federal law, regardless of compliance with state law.

In March 2017, Congressman Blumenauer and Senator Wyden introduced the three-bill package, Path to Marijuana Reform. The Path to Marijuana Reform includes the bipartisan Small Business Tax Equity Act, which would fix Section 280E of the United States Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The package also includes measures to eliminate civil asset forfeiture and federal criminal penalties for businesses complying with state law, reduce barriers to banking, responsibly de-schedule, tax and regulate marijuana.¹ Senator Booker has also introduced the Marijuana Justice Act, which would de-schedule marijuana. See Note 24 of the Consolidated Financial Statements.

On June 7, 2018, Senator Cory Gardner and Senator Elizabeth Warren introduced the STATES Act in the Senate. Democratic representative Jared Polis introduced a companion bill in the House. The STATES Act

¹ Wyden, Blumenauer. (2017 March 30). Wyden, Blumenauer announce bipartisan path to marijuana reform. Retrieved from <https://blumenauer.house.gov/media-center/press-releases/wyden-blumenauer-announce-bipartisan-pathmarijuana-reform>.

would amend the U.S. Controlled Substances Act to conform to the policies of individual states.² As noted above, this bill was re-introduced on April 4th, 2019. As of September 18, 2019, the House bill had 206 cosponsors, and the Senate bill had 33 cosponsors but neither has been advanced out of committee in either chamber.

The banking provisions of the STATES Act were reintroduced as the Secure and Fair Enforcement (SAFE) Banking Act of 2019 in the 116th U.S. Congress. In February of 2019, the SAFE Act received a historic vote in the House Consumer Protection and Financial Institutions Subcommittee, becoming the first cannabis bill to be recommended out of committee in the U.S. House. On September 25, 2019 the SAFE Act passed the U.S. House by a vote of 321 to 103. As of the date of this writing, the bill has received no action in the U.S. Senate. In late 2020, incoming Senate Majority Leader Charles Schumer was quoted several times as saying that this bill and other cannabis legalization efforts were on his agenda for 2021.

In response to the rescission of the Cole Memorandum, the U.S. Attorney for the District of Oregon, Billy Williams responded by saying “I have significant concerns about the state’s current regulatory framework and the resources allocated to policing marijuana in Oregon.” However, “it would be an inappropriate abdication of my duties to issue any blanket proclamations on our marijuana enforcement strategy in light of federal law.” In response to concerns regarding illicit cannabis grown and shipped out of Oregon, U.S. Attorney Williams called a summit of local and state government officials, industry experts, and law enforcement. At this summit in February 2018, Oregon governor Kate Brown proclaimed that Williams had assured members of her administration that “lawful Oregon businesses remain stakeholders in this conversation and not targets of law enforcement.”

The U.S. Attorney for Nevada has issued no such proclamation. The Attorney General for the State of Nevada assured the industry, “Although I opposed the Question 2 ballot initiative proposing the legalization of recreational marijuana in Nevada, I also pledged to defend the measure were it approved by the voters. Since Questions 2’s enactment, my office has vigorously defended it against two related lawsuits that threatened to slow or even halt the implementation of the law and has further assisted with the formulation and adoption of regulations to allow dispensaries to commence sales of recreational marijuana within just six months of the law’s enactment. My office has expeditiously facilitated the implementation of the law in the face of considerable uncertainty about the status of federal enforcement activity.”

During September 2019, the press in the U.S. began reporting on a mysterious condition resembling pneumonia, that consumers of nicotine and THC vaping products were experiencing. Vaping product sales are a material source of revenue for the Company. As of February 18, 2020, the CDC announced that 2,807 cases of hospitalized EVALI patients and/or EVALI related deaths were associated with symptoms that could possibly be linked to vaping products. Although there has been no medical or scientific determination as to the cause of the mysterious condition, management believes that the Company’s products do not contain any of the components, including but not limited to Vitamin E Acetate, which are presently implicated as possible sources of the condition. In an abundance of caution, governors of certain states in which the Company does business began taking precautionary, short-term actions until any possible link between vaping products and the condition is determined.

On October 4, 2019, Oregon Governor Kate Brown issued an executive order calling for a 180-day ban on sales of all flavored vaping products containing nicotine or THC, effective October 15, 2019. The

² Theodore Kupfer. (2018 Feb 7). Marijuana Policy Should Be Left To States. Retrieved from <https://www.nationalreview.com/2018/06/marijuana-policy-should-be-left-to-states/>

executive order was expected to last for six months and called for state agencies to develop a plan for warning labels, ingredient disclosures, product safety testing and a campaign to discourage vaping. Through the efforts of an Oregon based Distribution Company, this ban was stayed and on January 16, 2020 the Oregon Health Authority filed an administrative order suspending the rule.

On September 6, 2019, officials with the Southern Nevada Health District issued a joint statement with the Washoe County Health District and Carson City Health and Human Services about the risks of using e-cigarettes and vaping products. As of the date of this report, Nevada has taken no action against the sales of vaping products and continues to monitor the situation.

Notwithstanding the foregoing, there can be no assurance that the federal government will not move to prosecute cannabis businesses operating within state regulatory frameworks. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. There are significant risks associated with Chalice Brand's business, as described above and under the heading "Risk Factors". Readers are strongly encouraged to carefully read all of the risk factors described herein.

The Company has obtained legal services from lawyers with experience in cannabis in all jurisdictions where it is active, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.

Oregon Regulatory Summary

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an exclusive list of qualifying conditions that include chronic pain. In 2013, the legislature passed, and governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana dispensaries. However, House Bill 3460 only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

On June 30, 2015, Governor Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for cultivators and processors. In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act", creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed marijuana businesses.

The Oregon Health Authority ("OHA") registers "persons responsible for" and regulates medical marijuana businesses and the Oregon Liquor Control Commission ("OLCC") licenses and regulates adult-use marijuana businesses. There are six distinct types of cannabis businesses: cultivation, manufacturing ("processing"), wholesaling (only for adult use), dispensing, testing and research. Vertical integration between cultivation, processing, and sales is permissible, but not required, for both medical and adult-use.

In April 2019, lawmakers voted in favor to freeze marijuana production at the current levels for the next two years. Senate Bill 218 was fully passed, and as of June 1, 2019 the state will not issue any new production licenses to marijuana growers, but current cultivators will be able to renew regularly. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

As mentioned, on October 4, 2019, Oregon Governor Kate Brown issued an executive order calling for a 180-day ban on sales of all flavored vaping products, which went into effect on October 15, 2019. The order also called for the OLCC and the OHA to develop plans for consumer warnings, including displays of the health-related risks of vaping. In response to the ban, on October 29, 2019 Herban Industries OR, LLC filed a Motion to Stay Enforcement of the Temporary Rules. On November 14, 2019 the Motion was Granted, resulting in an immediate stay of OAR 845-025-2805. This motion prompted the OLCC to announce on November 15, 2019 that until the judicial review is complete, licensees are not prohibited from processing, transferring, and selling products previously banned under OAR 845-025-2805. In June of 2019 the OLCC announced Commission staff were attempting to address consumer product safety concerns by prohibiting all processed non-cannabis additives from being added to inhalable cannabis products. Non-cannabis vaping additives are used in cannabis vaping products for a variety of purposes, including dilution, flavor, and effects. In July of 2019 OLCC released proposed rules that prohibit the manufacture of “prohibited inhalable cannabinoid product” on or after November 1, 2020 and prohibit the sale or transfer of these products after April 1, 2021. In response to the proposed rules, the Company joined with other industry professionals to educate the OLCC on these additives and push for more ingredient documentation as opposed to a ban on all non-cannabis additives. This push was largely successful, and the OLCC settled on final rules, effective April 1, 2021, which require proper disclosure of non-cannabis additives and only bans a small, selective list of additives.

The Producer license carries an endorsement that authorizes Greenpoint Oregon to plant, cultivate, grow, harvest, and dry cannabis at its Bald Peak cultivation facility in Oregon. This allows the Company to utilize cannabis grown under our own license for sale to patients and customers at our retail locations in addition to utilizing the flower to produce extracts and edibles at our other facilities, reducing the need for third-party cannabis suppliers.

The Processor licenses carry endorsements that authorize Greenpoint Oregon to procure usable cannabis from OLCC licensed cultivators, or cannabinoid concentrates or extracts from other OLCC licensed processors, and to use that material to produce cannabinoid concentrates, extracts, and edibles. This license also carries an Industrial Hemp endorsement, which authorizes Greenpoint Oregon to procure Industrial Hemp products from OLCC licensed cultivators for use in Industrial Hemp CBD products. Those products may then be transferred to any OLCC licensed wholesaler for distribution to consumers. In addition to OLCC issued licenses, Greenpoint Oregon has their Hemp Handler License from the ODA which allows the company to intake Hemp grown by ODA licensed Hemp Growers with the proper certification for processing into CBD products. The Company also has a Food Handlers license issued by the ODA allowing for the manufacture of edibles.

Under the Wholesale licenses, Greenpoint Oregon can procure usable cannabis from any OLCC licensed producer, as well as cannabinoid extract, concentrate, or product from any OLCC licensed processor. The Wholesale license also includes authorization to package and label these products for sale to OLCC licensed retailers. Lastly, the wholesale license includes authorization to distribute these products to any OLCC licensed dispensary. The Company utilizes its wholesale licenses for supply chain management of its chain of dispensaries, as well as actively wholesaling to a large portfolio of other OLCC retail licensees.

The Company’s Retail licenses allow the Company to sell recreational useable cannabis, extracts, concentrates and products directly to consumers, as well as selling medicinal cannabis and cannabis products to Oregon Medical Marijuana Program (“OMMP”) patients and their designated primary caregivers. All retail licenses have Sales for Medical Purposes and Home Delivery Endorsements. Sale for Medical purposes is utilized at all locations to reduce tax paid by the customer on sales of product to

Medical Patients and/or Designated Caregivers on applicable purchases. Home Delivery Endorsement allows for deliveries of recreational and medical cannabis within the legal limits to customers' homes. Retail licensed facilities are responsible for compliance with Oregon law regarding customer age, required public safety notices, and educating the public as to Oregon law surrounding cannabis in store and on Home Deliveries as applicable. Customers must be age 21 or over or be registered with the OMMP as a patient or caregiver. In response to COVID-19 the OLCC has allowed for curbside pickup within 150 feet of the licensed premises that will remain active until January 2, 2021 when the Governor's state of emergency is expected to be lifted. The Company is currently utilizing this allowance at all stores to limit the number of customers inside the facility and accommodate those who choose to use this service. In addition to curbside delivery, three of the Company's retail stores have begun utilizing the Home Delivery endorsement on the Retail licenses.

Regulatory Framework

Oregon Revised Statutes Chapter 475 B (Cannabis Regulation) provides the regulatory framework for both the recreational and medical cannabis industries in Oregon. The OLCC implementation of the recreational cannabis statutes are found in Oregon Administrative Rules Chapter 845, Division 25. The OMMP implementation of the medical cannabis statutes are found in Oregon Administrative Rules Chapter 333, Division 8. Chapter 333, Division 7 provides the packaging, labelling and dosage limits for both programs, and Chapter 333, Division 64 governs the accreditation of laboratories for testing.

Both the OLCC and the OMMP Rules include licensing requirements and materials, as well as criteria for denial or approval of license applications.

Licensing Requirements

Licenses issued by OLCC may be renewed annually so long as the licensee meets the requirements of the law and pays the renewal fee. There is no maximum number of licenses per owner, except for cultivation licenses located at the same address.

Applicants must demonstrate (and license holders must maintain) that

- (i) They are registered with the Oregon Secretary of State to do business in Oregon;
- (ii) They have the operational expertise required by the individual license type, demonstrated by submission of an operation plan;
- (iii) They have the ability to secure the premises, resources, and personnel necessary to operate the license;
- (iv) They have the ability to maintain accountability of all cannabis and cannabinoid products and by-products via the state mandated seed-to-sale software to prevent diversion or unlawful access to these materials;
- (v) They have the financial ability to maintain operations for the duration of the license;
- (vi) All owners have passed background screening, inclusive of fingerprinting;
- (vii) That all local land use, zoning, and planning notices have been followed in the development of the licensed site.

Through its subsidiaries, Chalice is licensed by the OLCC to process, distribute, and sell recreational and medicinal cannabis and cannabis products in the State of Oregon. The OLCC has issued the following licenses to the Golden Leaf Holdings, Inc. wholly-owned subsidiaries:

Subsidiary	Licenses
Greenpoint Oregon Inc.	Producer: 020-10087170927
Greenpoint Oregon Inc.	Processor: 030-1003213EDB2; 030-100384161D7
Greenpoint Oregon Inc.	Wholesale: 060-1003227DB77; 060-10046405D93
CFA Retail, LLC	Retail: 050-10079928B63; 050-1007989F581; 050-10079902125; 050-10079919CD9; 050-1007988A80E; 050-10025185011; 050-10086554F25

Security Requirements

A licensee must always maintain a fully operational alarm and video monitoring system. Commercial grade, non-residential door locks are required on every external door. The alarm system must secure all entry points and be equipped with motion detectors and pressure activated panic alarms. The 24-hour video surveillance system must record at a high-resolution format approved by the OLCC and have camera coverage which covers all areas of the facility without any blackout areas. Video footage must be backed-up for a minimum of 30 days in hard-form, with a minimum of 90 days available on request. Additionally, the camera system must have the ability to print still photos.

Retail stores are the only facilities allowing public access. These facilities include a waiting area with sufficient space and seating to accommodate customers. This waiting area is separated from the consumer sales area by a locked door that is controlled by an employee within the secured area. All other facilities require signage advising that there is no public entry. Any vendors or contractors that must be on site at any licensed facility have to be fully checked in through a visitor log, wear a badge that identifies them as a visitor, and must be accompanied at all times by an employee.

Transportation and Storage Requirements

Recreational and medicinal cannabis and cannabis products must be stored in a secured, locked room or vault. Vaults that are large enough to allow a person to walk in must have cameras inside so that there is no blind spot. Smaller safes must be bolted to the floor. When products are transferred between licensees, they must first be fully manifested through the state mandated 'seed-to-sale' system.

This written manifest must include:

- (i) departure date and time;
- (ii) name, address, and license number of the originating licensee;
- (iii) name, address, and license number of the recipient;
- (iv) quantity and form of any cannabis or cannabis delivery device being transported;
- (v) arrival date and time;
- (vi) delivery vehicle make and model and license plate number; and
- (vii) name and signature of the employee delivering the product.

A copy of this manifest is provided to the receiving licensee for their verification. Upon receiving the transfer, the licensee must immediately verify the shipment versus the manifest and accept it electronically within the 'seed-to-sale' system. This completes the inventory transfer. OLCC licensees must maintain these records for a minimum of 3 years. During transport, all product is packaged

individually by order, and maintained within a locked receptacle within the vehicle. In addition to traditional manifest transfers, the OLCC introduced Circular Manifests that are used to travel between retailers and wholesalers to sell packaged product on the spot instead of by the normal routine ordering system. Drivers must deliver marijuana items to all destinations and/or return any remaining marijuana items to the origin premises within 60 hours of original departure.

Department Inspections

The OLCC conducts announced and unannounced inspections of all licensed facilities to determine compliance with laws and rules. The OLCC will inspect a licensee upon receiving a complaint or notice that the licensee has violated any existing rules. The OLCC will also conduct an annual license renewal inspection at the time of application approval. Inspections can cover all records, personnel, equipment, security, and operational methodologies.

Nevada Regulatory Summary

Nevada has a medical marijuana program and passed adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed a medical marijuana initiative allowing physicians to recommend cannabis for treatment of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioral Health (the “Division”) licensed medical marijuana establishments until July 1, 2017 when the state’s medical marijuana program merged with adult-use marijuana enforcement under the Nevada Department of Taxation (“DOT”). Under Nevada’s adult-use marijuana law, the DOT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the “Marijuana Enforcement Division of the Department of Taxation.”

In January of 2019 Executive Order 2019-03 was signed establishing the Governor's advisory panel for creating a Nevada Cannabis Compliance Board (“CCB”) and in June of 2019 Governor Steve Sisolak signed Assembly Bill 533 which created the Cannabis Compliance Board. The CCB consists of five board members appointed by the governor and is modeled after the Nevada Gaming Control Board. AB 533 also established the Cannabis Advisory Commission (“CAC”) which serves to study cannabis related issues and make recommendations to the CCB. The CAC consists of 12-members appointed by the governor representing relevant state agencies, members of the cannabis industry, and the public. On July 1, 2020 the Nevada Cannabis Compliance Board became fully authorized and took over regulation of the state’s cannabis industry.

Also, in June of 2019, Governor Sisolak approved Assembly Bill 132 making Nevada the first state to ban employers from refusing to hire job applicants who test positive for marijuana during the hiring process. In May of 2019, Governor Sisolak signed into law Senate Bill 32, that increases transparency in the licensing process by releasing certain information about license applicants, as well as methods used to issue licenses.

License applications in Nevada are merit based and competitive. Residency is not required to own or invest in a Nevada medical cannabis business and vertical integration is neither required nor prohibited. Nevada’s medical law includes patient reciprocity, which permits medical patients from other states to

purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Through its subsidiaries, Chalice is licensed for Cultivation and Cannabis Product manufacturing in the State of Nevada. The DOT has issued both Recreational and Medical Cultivation Licenses and both Recreational and Medical Product Manufacturing Licenses to Greenpoint Nevada, Inc. ("GNI"), a wholly owned subsidiary of Golden Leaf Holdings.

The cultivation licenses allow GNI to cultivate immature, vegetative, and flowering cannabis plants. There is no cap to the total canopy size afforded under this license. Cannabis cultivated under this license can be transferred to any DOT Product Manufacturing licensee, or to DOT licensed retailers via a DOT licensed distributor.

The Product Manufacturing licenses allow GNI to procure usable cannabis from any DOT licensed cultivator, and utilize that material to produce cannabis extracts, concentrates and products. These products may be marketed directly to DOT licensed retailers, or DOT licensed distributors. The license produces a line of edibles and employs licensed wholesale professionals which sell these products directly to DOT licensed retailers. All GNI issued licenses are currently in a Temporary Closure of Business status with the state as of May 1, 2020. If GNI chooses to utilize these licenses in the future, we can remove from hold status and continue operations per the regulations.

On June 28th, 2019, GNI was issued a violation notice from the City of Sparks, Nevada Fire Department requiring all processes using ethanol to cease immediately. The notice was issued due to the lack of permitting surrounding the actual use of ethanol and the lack of approval needed for equipment being used to process the ethanol. This notice forced GNI to stop production of RSO that is used in its vape cartridges, disposable vape pens, and shatter. Prior to the production interruption, in the six months ending June 30, 2019, GNI produced \$281,222 of revenue from the sale of RSO oil in Nevada. In August of 2019 GNI was also issued a violation from the City of Sparks when it was found the building did not have the proper drainage required by a food processing facility. Considering the building being utilized for production requires several maintenance and city corrections, the company has registered with the DOT to have current and new extract and edible product lines produced and packaged at a third-party Processing facility with a Product Manufacturing license in Reno, Nevada. The Company continued to package edibles in the Sparks facility until the Company terminated its tenancy on April 30, 2020.

Regulatory Framework

Nevada Administrative Code 453D provides a regulatory framework that outlines the function of the CCB Marijuana program. Subsections of this chapter outline licensing and enforcement guidelines which guide the CCB. In addition, the CCB has issued Nevada Revised Statutes 678C and 678D which regulate the Medical and Adult Use of Cannabis. These statutes went into effect July 1, 2020.

Licensing Requirements

Licenses issued by the CCB can be renewed annually so long as the licensee continues to demonstrate compliance with local and state law and pays the renewal fee. The CCB places license caps on all license classifications, which are reassessed annually.

Applicants must demonstrate (and license holders must maintain) that:

- (i) they are registered with the Nevada Secretary of State to do business in Nevada;

- (ii) that they have contributed to the advancement of the State of Nevada via regular tax payments;
- (iii) that they do not have interests in the casino or alcohol industries;
- (iv) they have the operational expertise required by the individual license type, demonstrated by submission of an operation plan;
- (v) they have the ability to secure the premises, resources, and personnel necessary to operate the license;
- (vi) they have the ability to maintain accountability of all cannabis and cannabinoid products and by-products via the state mandated seed-to-sale software to prevent diversion or unlawful access to these materials;
- (vii) they have the financial ability to maintain operations for the duration of the license;
- (viii) all owners have passed background screening, inclusive of fingerprinting; and
- (ix) that all local land use, zoning, and planning notices have been followed in the development of the licensed site.

Security Requirements

A licensee must always maintain a fully operational alarm and video monitoring system. The alarm system must secure all points of ingress and egress and be equipped with motion detectors. The 24-hour video surveillance system must record at a high-resolution format approved by the CCB and have camera coverage which covers all areas of the facility without any blind spots. Video footage must be backed-up for a minimum of 30 days in hard-form.

Cultivation and product manufacturing sites are not open to the public. Facilities must have ample signage advising no public admittance. Any vendor or contractor that needs access to the premises must be fully identified and sign into a vendor log. There is no access to non-employees unless there is an employee present.

Transportation and Storage Requirements

An Adult Use cannabis establishment cannot transport cannabis, adult-use edible products, or adult-use cannabis infused products to an adult-use cannabis retailer store unless the adult-use cannabis establishment holds a license for an adult-use cannabis distributor. Additionally, a medical cannabis establishment can transport cannabis, medical edible cannabis products, or medical cannabis infused products for the use of medical cannabis. Cannabis and cannabis goods must be stored in a lockable safe or vault at any time that employees are not on location. Any storage container that is large enough to allow an employee to walk into it must have cameras placed inside. Goods to be transported to another licensee must be fully manifested via the state mandated seed-to-sale tracking system prior to being transported. Greenpoint Nevada utilizes a CCB licensed distributor as a partner in all shipments.

Department Inspections

The CCB conducts announced and unannounced inspections of all licensed facilities to determine compliance with laws and rules. The CCB will inspect a licensee in the event of a complaint indicating that the licensee has or is actively violating existing statute. The CCB will also inspect at the time of any modification, as well as at the time of annual renewal.

California Regulatory Summary

The State of California has both medical and adult use cannabis programs. In 1996, following years of decades of progress on decriminalization measures, California became the first state to establish a medical cannabis program when voters passed Proposition 215, the Compassionate Use Act. The Compassionate Use Act legalized the use, possession, and cultivation of cannabis by patients with a physician's recommendation, for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or "any other illness for which marijuana provides relief". The law also allowed patient caregivers to cultivate cannabis and urged lawmakers to facilitate the "safe and affordable distribution of marijuana". Later, in 2003 the California legislature passed Senate Bill 420 which established a functional medical cannabis industry by allowing the formation of non-profit collectives for provisioning of cannabis to patients and also established the patient identification card system. In 2016 California voters approved Proposition 64 by a vote of 57% to 43%, legalizing recreational use of cannabis in the state. Following passage of Proposition 64, The Bureau of Medical Cannabis Regulation was renamed to the Bureau of Cannabis Control, and was given licensing and regulatory authority over dispensaries, microbusinesses, distributors, and testing laboratories. The California Department of Food and Agriculture formed a branch called CalCannabis which is responsible for licensing and regulating cultivation operations in the state. Lastly, the California Department of Public Health developed the Manufactured Cannabis Safety Branch, which has licensing and regulatory authority over all product manufacturers within the California cannabis industry. Each of the three governing bodies has its own set of administrative rules which were developed in response to the Adult Use of Marijuana Act (Prop 64) and heavily reference the California Business and Professions Code.

In his January 2020 budget proposal, California Governor Gavin Newsom proposed merging the three regulatory agencies to form one governing body for the cannabis industry in California. The stated goal was to improve licensing flows and tax administration for operators in the industry. Due to the COVID-19 pandemic, this effort was interrupted, and in June 2020 the Governor announced that he would delay this project to the 2021-2022 budget year.

Regulatory Framework

Until California can successfully bring the 3 agencies together under one roof, operators in California are beholden to several different regulatory codes, depending on the privilege of their license. California Code of Regulations Title 16, Division 42 provides the regulatory framework for and outlines the function of the Bureau of Cannabis Control in relation to Retail, Distribution, Microbusiness and Testing Laboratory licensees. California Code of Regulations Title 3, Division 8 contains the framework and functional authority for the Cal Cannabis Cultivation program and all Cultivation license holders. Lastly, California Code of Regulations Title 17, Division 1 establishes and outlines the Manufactured Cannabis Safety Branch and acts as guidelines for all Manufacturing licensees.

Licensing Requirements

Licenses issued by all 3 Bureaus can be renewed annually so long as the licensee continues to demonstrate compliance with local and state law and pays the renewal fee. Licenses are not capped at the state level by any of the Bureaus. Instead, proliferation of licenses is constrained by zoning ordinances at the municipal level.

While standards vary slightly between the bureaus, in general Applicants must demonstrate (and license holders must maintain) that:

- (i) they are registered with the California Secretary of State to do business in California;
- (ii) they have the operational expertise required by the individual license type, demonstrated by submission of an operation plan;
- (iii) they have the ability to secure the premises, resources, and personnel necessary to operate the license;
- (iv) they have the ability to maintain accountability of all cannabis and cannabinoid products and by-products via the state mandated seed-to-sale software to prevent diversion or unlawful access to these materials;
- (v) they have the financial ability to maintain operations for the duration of the license;
- (vi) all owners have passed background screening, inclusive of fingerprinting;
- (vii) all local land use, zoning, and planning notices have been followed in the development of the licensed site;
- (viii) the applicant has entered into a labor peace agreement and will abide by the terms of the agreement;
- (ix) the business has employed a supervisor who has completed the Cal-OSHA 30-hour general industry course;
- (x) the business is exempt from, or in compliance with the California Environmental Quality Act; and
- (xi) the business has received the requisite sellers permit from the California Department of Tax and Fee Administration

Security Requirements

A licensee must always maintain a fully operational alarm and video monitoring system. The alarm system must secure all points of ingress and egress and be equipped with motion detectors. The 24-hour video surveillance system must record at a high-resolution format approved by the Bureau and have camera coverage which covers all areas of the facility without any blind spots. Video footage must be backed-up for a minimum of 30 days in hard-form. Secured access points need to have individualized access credentials and should store access logs in a manner that can be audited by the Bureau.

Retail licensees are the only licensee who may be open to the public. Facilities must have ample signage advising no public admittance. Any vendor or contractor that needs access to the premises must be fully identified and sign into a vendor log. There is no access allowed to non-employees unless there is an employee present.

Transportation and Storage Requirements

Licensees holding a Distributor license from the Bureau of Cannabis Control are the only licensees allowed to transport product between licensed sites. Operators must use a licensed Distributor to move product between Cultivation or Manufacturing sites and Retail

dispensaries. During transport, all cannabis and cannabis products must be stored in a locking container, out of view from the outside of the vehicle. Transports must be fully manifested and entered the states seed-to-sale tracking system at least 24 hours prior to transport, and a hard copy of the manifest must travel with the product during transport. All deliveries must enter a predetermined route into the system and cannot substantially deviate from that route without notifying the bureau.

Department Inspections

Inspection cadences vary by Bureau; however all have the ability to conduct both announced and unannounced inspections. Unannounced inspections are generally pursuant to a complaint or report of non-compliance. Announced inspections are conducted at license issuance, renewal, and at any time that the operator proposes a change to the facility, whether that be a change to the floorplan, security camera coverage, or addition or subtraction of useable space. In no event is a licensee allowed to deny entry to an inspector, and all inspections will be followed by a written report of findings and request for corrective action, in the event that there are issues uncovered. Operators are given a 30-day timeframe to respond to reports with plan of correction.

RISK FACTORS

The following are certain risk factors relating to the Company and the business carried on by the Company. The Company will continue to face a number of challenges in the development of its business. Due to the nature of and present stage of the Company's business, the Company may be subject to significant risks. The following is a summary of the principal risk factors affecting the Company.

Risks Related to the Company's Business

Operational Risks

The Company faces a number of operational risks to both its retail operations and its cultivation and processing business, and may not be adequately insured for certain of these risks. Operational risks include: labor disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; liability for non-compliance with laws and regulations; and natural phenomena, such as inclement weather conditions, floods, earthquakes and ground movements. There is no assurance that the foregoing risks and hazards will not result in damage to, or destruction of, the Company's properties, grow facilities and extraction facilities; personal injury or death; environmental damage; or adverse impacts on the Company's operations, costs, monetary losses, potential legal liability and adverse governmental action. Also, the Company may be affected by liability or may sustain loss for certain risks and hazards against which the Company cannot insure, or which the Company may elect not to insure. This lack of insurance coverage could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Availability of Flower and Trim in Oregon

Previously disclosed oversupply issues in Oregon are now largely stabilized. Prices of flower and trim have recovered and at times product shortages exist based on seasonality. Oregon remains an open licensing state, however, the state regulatory body the OLCC was as recently as late 2019 placing a de facto moratorium on new licensure. The OLCC is now issuing new licenses and processing ownership changes, which may result in more supply in the industry in the future, but for the time being the market has stabilized. Nevertheless, the Company still views oversupply and undersupply as a significant risks.

The Cannabis Industry and Market are Relatively New and this Industry and Market May Not Continue to Exist or Grow as Anticipated or the Company May Be Ultimately Unable to Succeed in this New Industry and Market

The Company and its subsidiaries are operating their businesses in a relatively new industry and market. In addition to being subject to general business risks and to risks inherent in the nature of an early stage business, a business involving an agricultural product and a regulated consumer product, the Company must continue to build brand awareness in an industry with limits on marketing and continue to make significant investments in its strategy, its production capacity, quality assurance and compliance with regulations. These activities may not promote the Company's brand and products or result in sales growth as intended, or at all. In addition, there is no assurance that the industry and market in the United States will continue to exist and grow as currently estimated or anticipated or function and evolve in the manner consistent with management's expectations and assumptions. Any event or circumstance that adversely affects the cannabis industry and market could have a material adverse effect on the Company's business, financial conditions and results of operations.

Ability to Access Public and Private Capital

The Company has historically, and continues to have, access to capital in Canada in order to support its continuing operations. In addition, the Company has had success completing private offerings in the past, including the recently announced non-brokered private placements in the first quarter of 2021 for total gross proceeds in excess of C\$13 million. The Company has an ongoing banking relationship with two banks in Canada. Although the Company has accessed private financing in the past, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. To date, the Company has not had to raise any capital through a prospectus financing and such financing may not be available to the Company.

Competition from Illegal Dispensaries and the Black Market

The Company also faces competition from illegal dispensaries and the black market that are unlicensed and unregulated, and that are selling cannabis and cannabis products, including products with higher concentrations of active ingredients, and using delivery methods that the Company is prohibited from offering to individuals as they are not currently permitted by law. Various cities have seen an influx in the number of illegal dispensaries or continued operation of such illegal dispensaries despite efforts to shut them down. Any inability or unwillingness of law enforcement authorities to enforce existing laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could result in the perpetuation of the black market for cannabis and/or have a material adverse effect on the

perception of cannabis use. Any or all these events could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's Industry is Experiencing Rapid Growth and Consolidation that May Cause the Company to Lose Key Relationships and Intensify Competition

The cannabis industry is undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in several ways, including the loss of strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact profitability.

Risks Inherent in an Agricultural Business

The Company's business involves the cultivation of cannabis plants. The cultivation of this plant is subject to agricultural risks related to insects, plant diseases, unstable growing conditions, water and electricity availability and cost, and force majeure events. There can be no assurance that agricultural risks will not have a material adverse effect on the cultivation of its cannabis. The Company may in the future cultivate cannabis plants outdoors, which would also subject it to related agricultural risks.

Reliance on Third-Party Suppliers, Manufacturers and Contractors

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in the United States, the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

Environmental and Employee Health and Safety Regulations

Costs and obligations related to ensuring continuous compliance with environmental and safety laws 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 are inherent in being a producer of agricultural products. Failure to maintain such compliance may result in additional costs for corrective measures, penalties or restrictions on manufacturing operations.

Further, 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.

Supply of Trim

The Company currently does not cultivate sufficient cannabis to supply itself with enough cannabis leaves and small flowers ("Trim") to operate its oil extraction business. Currently, the Company acquires additional Trim from third parties in amounts sufficient to operate its oil extraction business. However, there can be no assurance that there will continue to be a supply of Trim available for the Company to purchase in order to operate its oil extraction business. Additionally, the price of Trim may rise which

would increase the Company's cost of goods. If the Company were unable to acquire the Trim required to operate its oil extraction business, or if the price of Trim increased, it could have a material adverse impact on the business of the Company, its financial condition and results from operations.

Product Recalls

The Company's products may be subject to recall or return 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 labelling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection therewith. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, 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 products produced by the Company were subject to recall, the image of that product 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 regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Product Liability Claims

As a manufacturer 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 manufacturing and sale of cannabis and other products 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 cannabis 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 products produced by the Company 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 results of operations and financial condition of the Company.

Vulnerability to Rising Energy Costs

The Company's cannabis growing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

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 Company. 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 were to go out of business, the Company 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 Company 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 Company.

Transportation Risks

Security of the product during transportation to and from the facility is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition, and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of applicable regulators, could also have an impact on the Company's ability to continue operating under its licenses, or the prospect of renewing its licenses or obtaining additional licenses and/or approvals.

Security Risks

The business premises of the Company are targets for theft. While the Company has implemented security measures and continues to monitor and improve its security measures, its cultivation, processing and dispensary facilities could be subject to break-ins, robberies and other breaches in security. If there was a breach in security and the Company fell victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment could have a material adverse impact on the business, financial condition, and results of operation of the Company.

As the Company's business involves the movement and transfer of cash which is collected from dispensaries and used to purchase Trim or deposited into its banks, there is a risk of theft or robbery during the transport of cash. The Company has engaged security firms to provide armed guards and security in the transport and movement of large amounts of cash. Sales representatives sometimes transport cash and/or products, and each sales representative has a panic button in their vehicle and, if requested, may be escorted by armed guards. While the Company has taken robust steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

Permits and Authorizations May Be Restricted

The Company has been and may be required to obtain and maintain certain permits, licenses and approvals in the jurisdictions where its products are manufactured and/or sold. Although the Company has obtained various medical and recreational marijuana licenses, there can be no assurance that it will be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate its medical marijuana and recreational business. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on the Company's ability to operate its medical and recreational marijuana business, which

could have a material adverse effect on the Company's business, financial condition, or results of operations.

Competition from Synthetic Products

The pharmaceutical industry may attempt to dominate the cannabis industry, and in particular, legal cannabis, through the development and distribution of synthetic products which emulate the effects and treatment of organic cannabis. If they are successful, the widespread popularity of such synthetic products could change the demand, volume and profitability of the cannabis industry. This could adversely affect the ability of the Company to secure long-term and sustainable profitability and success through the sustainable and profitable operation of the anticipated businesses and investment targets, and could have a material adverse effect on the Company's business, financial condition or results of operations.

Unfavorable Publicity or Consumer Perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis distributed to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical and recreational cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the 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 and financial condition of the Company. In particular, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Although the Company believes that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business, thereby having a material adverse impact on the financial condition and results of operations of the Company.

Liability and Enforcement Actions

The Company's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against these subsidiaries. Litigation, complaints, and enforcement actions involving these subsidiaries could consume considerable amounts of financial and other corporate resources, which could have a material adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

The Company Has a History of Net Losses, Which Might Occur Again in the Future with No Assurance of Profitability

The Company incurred a net loss for the period from incorporation on April 8, 2014 to December 31, 2020 of US\$151.1M. The Company cannot assure investors that it can achieve profitability or avoid net losses in the future or that there will not be any earnings or revenue declines for any future quarterly or other periods. The limited operating history makes it difficult to predict future operating results. The Company expects that its operating expenses will increase as it grows its business, including expending substantial resources for product development and marketing. As a result, any decrease or delay in generating revenues could result in material operating losses. In addition, the Company is subject to the risks inherent in the operation of a new business enterprise in an emerging and uncertain business sector, and there can be no assurance that the Company will be able to successfully address these risks.

The Company May be Exposed to Infringement or Misappropriation Claims by Third Parties, Which, if Determined Adversely to the Company, Could Subject the Company to Significant Liabilities and Other Costs

The Company's success may likely depend on its ability to use and develop new extraction technologies, recipes, know-how and new strains of marijuana without infringing the intellectual property rights of third parties. The Company cannot assure that third parties will not assert intellectual property claims against it. The Company is subject to additional risks if entities licensing to it intellectual property do not have adequate rights in any such intellectual property. If third parties assert copyright or patent infringement or violation of other intellectual property rights against the Company, it will be required to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of management personnel. An adverse determination in any such litigation or proceedings to which the Company may become a party could subject it to significant liability to third parties, require it to seek licenses from third parties, to pay ongoing royalties or subject the Company to injunctions prohibiting the development and operation of its applications.

The Company May Need to Incur Significant Expenses to Enforce its Proprietary Rights, and if the Company is Unable to Protect Such Rights, its Competitive Position Could be Harmed

The Company regards proprietary methods and processes, domain names, trade names, trade secrets, recipes, and other intellectual property as critical to its success. The Company's ability to protect its proprietary rights is critical for the success of its business and its overall financial performance. The Company has taken certain measures to protect its intellectual property rights. However, the Company cannot assure that such measures will be sufficient to protect its proprietary information and intellectual property. Policing unauthorized use of proprietary information and intellectual property is difficult and expensive. Any steps the Company has taken to prevent the misappropriation of its proprietary technology may be inadequate. The validity, enforceability, and scope of protection of intellectual property in the cannabis industry is uncertain and still evolving. In particular, the laws and enforcement procedures in some developing countries are uncertain and may not protect intellectual property rights in this area to the same extent as do the laws and enforcement procedures in Canada, the United States, and other developed countries.

The Company is Dependent Upon its Existing Management and its Growing and Extraction Personnel, and its Business May be Severely Disrupted if it Loses Their Services.

The Company's future success depends substantially on the continued services of its executive officers and its key grow and extraction personnel. If one or more of its executive officers or key personnel were unable or unwilling to continue in their present positions, the Company might not be able to replace them easily or at all. In addition, if any of its executive officers or key employees joins a competitor or forms a competing company, the Company may lose know-how, key professionals, and staff members. These executive officers and key employees could compete with and take customers away from the Company.

Reliance on and Retention of Qualified Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion, and good faith of its senior management (collectively, "Key Personnel"). Moreover, the Company's future success depends on its continuing ability to attract, develop, motivate, and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of Key Personnel, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such employees.

Available Talent Pool

As the Company grows, it will need to hire additional human resources to continue to develop the business, and will need to replace and upgrade other human resources in the normal course. However, experienced talent in the areas of retailing, cannabis research and development, cannabis branding and marketing, growing marijuana and extraction is difficult to source, and there can be no assurance that the appropriate individuals will be available or affordable to the Company. Without adequate personnel and expertise, the growth of the Company's business may suffer.

Potential Future Acquisitions and/or Strategic Alliances May Have an Adverse Effect on the Company's Ability to Manage its Business

As part of the Company's overall business strategy, the Company pursues and may continue to pursue select strategic acquisitions to acquire businesses or assets that are complementary to its business and/or enter into strategic alliances in order to leverage its position in the cannabis industry. These would include but not be limited to acquisitions to provide additional product offerings, vertical integrations, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. Future acquisitions may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; or (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses. Any difficulties encountered in the acquisition and strategic alliance process may have an adverse effect on the Company's ability to manage its business. In addition, any proposed acquisitions may be subject to regulatory approval.

Management of Growth

The Company may experience a period of significant growth in the number of personnel that will place a strain upon its management systems and resources. Its future will depend in part on the ability of its officers and other key employees to implement and improve financial and management controls, reporting systems and procedures on a timely basis and to expand, train, motivate and manage the workforce. The Company's current and planned personnel, systems, procedures and controls may be inadequate to support its future operations.

General Economic Trends

Adverse changes in general economic or political conditions in the United States or any of the states within the United States and especially the State of Oregon could adversely affect customers' spending and therefore, the Company's business, financial condition, or results of operations.

Asset Location and Legal Proceedings

Substantially all of the Company's assets are located outside of Canada and many of its officers and directors are residents outside of Canada and their assets are outside of Canada. Serving process on the directors and officers may prove to be difficult or excessively time consuming. Additionally, it may be difficult to enforce a judgment obtained in Canada against the Company, its subsidiaries and any directors and officers residing outside of Canada.

Electronic Communication Security Risks

A significant potential vulnerability of electronic communications is the security of transmission of confidential information over public networks. Anyone who is able to circumvent the Company's security measures could misappropriate proprietary information or cause interruptions in its operations. The Company may be required to expend capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches.

Insurance Coverage

The Company requires insurance coverage for a number of risks, including business interruption, environmental matters and contamination, personal injury and property damage. Although the Company believes that the events and amounts of liability covered by its insurance policies will be reasonable, taking into account the risks relevant to its business, and the fact that agreements with users contain limitations of liability, there can be no assurance that such coverage will be available or sufficient to cover claims to which the Company may become subject. If insurance coverage is unavailable or insufficient to cover any such claims, the Company's financial resources, results of operations and prospects could be adversely affected.

United States Tax Risk

The provisions of Internal Revenue Code section 280E are being applied by the Internal Revenue Service ("IRS") to businesses operating in the cannabis industry. Section 280E provides:

No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.

Even though several states have medical and recreational marijuana laws, the IRS is applying section 280E to deny business deductions to businesses involved with medical and recreational marijuana. Businesses operating legally under state law argue that section 280E should not be applied because Congress did not intend the law to apply to businesses that are legal under state law. The IRS asserts that it was the intent of Congress to apply the provision to anyone "trafficking" in a controlled substance, as defined under federal law (as stated in the text of the statute). Thus, section 280E is at the center of the conflict between federal and state laws with respect to medical and recreational marijuana which applies to the business conducted by the Company.

Currency Fluctuations

Due to the Company's present operations in the United States, and its intention to continue future operations outside of Canada, the Company is exposed to currency fluctuations. The Company's revenue is earned in U.S. dollars, and its operating expenses are incurred in U.S. dollars and Canadian dollars. The majority of the Company's financing proceeds have been funded in Canadian dollars. The Company reports its results of operations and other financial information in U.S. dollars. The Company does not have currency hedging arrangements in place and there is no expectation that the Company will put any currency hedging arrangements in place in the future. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar, may have a material adverse effect on the Company's business, financial condition, and operating results. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

Risks Specifically Related to the United States Regulatory System

Marijuana is illegal under U.S. federal law and enforcement of relevant laws is a significant risk. The Company is expected to continue to derive a significant portion of its revenues from the cannabis industry in certain states of the United States, a country in which the consumption and sale of cannabis remains prohibited by federal law.

Marijuana is a Schedule I controlled substance under the U.S. Controlled Substances Act and is illegal under U.S. federal law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of U.S. federal law. Since U.S. federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana would likely result in our inability to execute our business plan.

Unless and until Congress amends the U.S. Controlled Substances Act with respect to medical and recreational marijuana, as to the timing or scope of any such potential amendments, there is a significant risk that federal authorities may enforce current federal law, and the Company may be deemed to be producing, cultivating or dispensing marijuana in violation of federal law or the Company may be deemed to be facilitating the selling or distribution of drug paraphernalia in violation of federal law with respect to our current or proposed business operations. Active enforcement of the current federal regulatory position on cannabis may thus indirectly and adversely affect the Company's future cash flows, earnings, results of operations and financial condition.

While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. Chalice is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions.

As of December 31, 2020, Chalice has exposure to U.S. cannabis-related activities through:

1. the (compliant licensed) production and sale of its cannabis consumer products to wholesale customers in the States of Oregon and Nevada,
2. the (compliant licensed) operation of retail dispensaries in the State of Oregon,
3. the (compliant licensed) cultivation of cannabis trim and flower in the State of Oregon,
4. wholly owned subsidiaries engaged in ancillary businesses, such as equipment leasing, intellectual property management, employee leasing, and property leasing, and
5. distribution and manufacturing relationships with partners in the states of California and Washington.

The Enforcement of Relevant United States Laws Related to Cannabis

The following table is a summary of Chalice Brand's balance sheet exposure to U.S. cannabis-related activities as of March 31, 2021:

	March 31, 2021	December 31, 2020
Current Assets	\$ 16,198,723	\$ 7,422,991
Non-current assets	21,673,253	24,217,537
Total assets	\$ 37,871,976	\$ 31,640,528
Current liabilities	6,292,888	3,052,896
Non-current liabilities	19,020,967	17,986,432
Total liabilities	\$ 25,313,855	\$ 21,039,328

Goodwill and intangible assets related to the acquisition of U.S.-based subsidiaries are included within the non-current assets totals above.

The following represents the portion of certain assets on the Company's consolidated balance sheet that pertain to U.S. cannabis-related activities as of March 31, 2021:

- Inventory: 100% (December 31, 2020: 100.0%)
- Property plant & equipment: 100% (December 31, 2020: 100.0%)
- Intangible assets and goodwill: 100% (December 31, 2020: 100.0%)

The following is a summary of operating losses from U.S. cannabis-related activities:

	For the three months ended March 31, 2021	% of consolidated total
Revenue	\$ 5,495,455	100%
Cost of sales	3,014,833	100%
Gross profit	2,480,622	100%
Less operating expenses	2,480,933	90%
Net loss	\$ (311)	0%

Risks Related to Variation in State Regulation

Individual state laws do not always conform to the U.S. federal regulations or to other states' laws. Several states have decriminalized marijuana to varying degrees, other states have created exemptions specifically for medical cannabis, and several have both decriminalization and medical laws. At the time of this writing 17 states have passed adult-use cannabis regulations and are in varying states of implementation, with others rapidly approaching legalization. Variations exist among states that have legalized, decriminalized, or created medical marijuana exemptions. In most states, the cultivation of marijuana for personal use continues to be prohibited except for those states that allow small-scale cultivation by the individual in possession of medical marijuana needing care or that person's caregiver.

Risks Related to Potential Changes in Cannabis Laws

As described in *"Risks Specifically Related to the United States Regulatory System"*, the legality of the production, extraction, distribution and use of cannabis differs among jurisdictions. In the United States, the Company's investments have been focused in the states that have legalized the recreational use of cannabis.

The activities of the Company's investments are, and will continue to be, subject to evolving regulation by governmental authorities. 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. 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 businesses.

The Company cannot predict the nature of any future laws, regulations, interpretations or applications, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on the Company's business. There can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the United States federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's investments in such businesses would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its investments.

The legislative and regulatory environment in the Company's jurisdictions is dynamic and reflects the uncertainty and search for novel solutions in the highly-regulated cannabis industry. Management expects that the legislative and regulatory environment in the cannabis industry will continue to be dynamic and will require innovative solutions to comply with this changing legal landscape in this nascent industry, for the foreseeable future.

Risks Associated with Travelling Across Borders

News media have reported that United States immigration authorities have increased scrutiny of Canadian citizens who are crossing the United States-Canada border with respect to persons involved

in cannabis businesses in the United States. There have been a number of Canadians barred from entering the United States as a result of an investment in or act related to United States cannabis businesses. In some cases, entry has been barred for extended periods of time and lifetime bans have been granted.

The majority of persons travelling across the Canadian and U.S. border do so without incident. Some persons are simply denied entry one time. The U.S. Department of State and the Department of Homeland Security have indicated that the United States has not changed the admission requirements in response to the legalization of recreational cannabis in Canada. Admissibility to the United States may be denied to any person working or 'having involvement in' the marijuana industry according to U.S. Customs and Border Protection. Additionally, legal experts have indicated that if the admission criteria are applied broadly, this may result in a determination that the act of investing in or working or collaborating with a U.S. cannabis company is considered trafficking in a Schedule I controlled substance or aiding, abetting, assisting, conspiring or colluding in the trafficking of a Schedule I controlled substance. 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.

Directors, officers or employees traveling from Canada to the United States for the benefit of the Company may encounter enhanced scrutiny by United States immigration authorities that may result in the employee not being permitted to enter the United States for a specified period of time. If this happens to directors, officers or employees, this may reduce the Company's ability to manage its business effectively in the United States.

The Company's Investments in the United States are Subject to Applicable Anti-money Laundering Laws and Regulations

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

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

Chalice Brand's Funding of the Activities of Investments Involved in the Recreational Cannabis Industry through Loans, Royalties or other Forms of Investment, may be Illegal under the Applicable Federal Laws of the United States and other Applicable Law. There can be no Assurances the Federal Government of the United States or other Jurisdictions will not Seek to Enforce the Applicable Laws Against the Company. The Consequences of such Enforcement would be Materially Adverse to the Company and the Company's Business and could Result in the Forfeiture or Seizure of all or Substantially all of the Company's Assets.

The concepts of “medical cannabis” and “retail cannabis” do not exist under United States federal law because the U.S. Controlled Substances Act classifies “marijuana” as a Schedule I drug. As such, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis remain illegal under United States federal law. Although the Company’s activities are compliant with applicable U.S. state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company’s operations and financial performance.

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, its holding (directly or indirectly) of medical and recreational 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.

Risks of the United States Banking System

Since the use of marijuana is illegal under U.S. federal law, banks have commonly concluded that they cannot accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty finding a bank willing to accept their business. The inability to open bank accounts may make it difficult to operate the Company’s medical and recreational marijuana business.

The Company’s Investments in the United States May Subject the Company to Heightened Scrutiny

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 regulatory authorities. As a result, the Company may be subject to significant, potentially costly or time intensive interactions 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. See “*Risks Related to the Company’s Business.*”

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

Further, violations of any United States or Canadian federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and recreational cannabis licenses in the United States, the listing of its securities on 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 *“Risks Related to the Company’s Business.”*

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

The Company’s subsidiaries incur 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’s investments and, therefore, on the Company’s prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management’s view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. The marketability of any product may be affected by numerous factors that are beyond the control of the Company’s investments 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 investments’ earnings and could make future capital investments or the Company’s investments’ 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.

As described in *“Risks Specifically Related to the United States Regulatory System”*, the views between state legislatures and the federal government of the United States regarding cannabis are conflicting, and thus, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future investments of the Company in the United States. As a result of

the tension between state and federal law, there are a number of risks associated with the Company's existing and future investments in the United States.

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

It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, 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 CSA and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**TMX MOU**") with Aequitas NEO Exchange Inc., the Canadian Securities Exchange ("**CSE**"), the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. The Company has obtained eligibility with the Depository Trust Company ("**DTC**") for its Common Share quotation on the OTCQB and such DTC eligibility provides another possible avenue to clear Common Shares in the event of a CDS ban.

Risk Related to the Common Shares of the Company

No Assurance of Returns

There can be no assurance that the publicly-traded stock price of the Company will be high enough or increase enough to create a positive return for investors. Further, there can be no assurance that the stock of the Company will be sufficiently liquid so as to permit investors to sell their position in the Company without adversely affecting the stock price. In such event, the profitability of resale of the Company's shares would be diminished.

As well, the continued operation of the Company may be dependent upon its ability to procure additional financing in the short term and to generate operating revenues in the longer term. There can be no assurance that any such financing can be obtained. If the Company is unable to obtain such additional financing, the Company may not be able to continue to operate its business, investors may be unable to sell their shares in the Company and any investment in the Company may be lost.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continuing fluctuations in price will not occur. It may be anticipated that any quoted market for the shares of the Company will be subject to market trends generally, notwithstanding any potential success of the Company in creating revenues, cash flows or earnings. The value of the Company's shares may be affected by such volatility.

Need for Funds

In the short term, the continued operation of the Company may be dependent upon its ability to procure additional financing. The Company may obtain such financing through a combination of equity and debt financing and there can be no assurance that the Company can raise the required capital it needs to expand into new geographic markets and build and expand its current grow and extraction facilities, nor that the capital markets will fund the business of the Company. Without this additional financing, the Company may be unable to achieve positive cash flow and earnings as quickly as anticipated or to meet its obligations as they become due. There can be no certainty that the Company can obtain these funds, in which case any investment in the Company may be lost. The raising of equity funding could also result in dilution of the equity of the Company's shareholders.

The Company Does Not Pay Dividends

The Company has not paid dividends to shareholders in the past and does not anticipate paying dividends in the foreseeable future. The Company expects to retain its earnings to finance growth, and where appropriate, to pay down debt.

Other MD&A Disclosure Requirements Information available on SEDAR

As specified by National Instrument 51-102, the Company advises readers of this MD&A that important additional information about the Company is available on the SEDAR website – www.sedar.com.

Outstanding share data

Common shares issued and outstanding as of March 31, 2021 are described in detail in Note 13 of the Consolidated Financial Statements for year ended December 31, 2020. Shares outstanding as of May 25, 2021 are 59,081,260.