

# **Chalice Brands Ltd.**

## **ANNUAL INFORMATION FORM FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2020**

**September 23, 2021**

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## TABLE OF CONTENTS

EXPLANATORY NOTES AND CAUTIONARY STATEMENTS .....	1
CORPORATE STRUCTURE .....	4
GENERAL DEVELOPMENT OF THE BUSINESS.....	5
DESCRIPTION OF BUSINESS .....	7
OVERVIEW OF UNITED STATES REGULATION OF CANNABIS.....	13
RISK FACTORS .....	29
DIVIDENDS .....	42
DESCRIPTION OF SHARE CAPITAL .....	43
MARKET FOR SECURITIES.....	43
ESCROWED SECURITIES.....	44
DIRECTORS AND OFFICERS.....	45
PROMOTER .....	49
LEGAL PROCEEDINGS AND REGULATORY ACTIONS .....	49
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	51
TRANSFER AGENT AND REGISTRAR.....	52
MATERIAL CONTRACTS.....	52
AUDIT COMMITTEE INFORMATION .....	52
INTERESTS OF EXPERTS.....	53
ADDITIONAL INFORMATION.....	53

## EXPLANATORY NOTES AND CAUTIONARY STATEMENTS

Chalice Brands Ltd. (the “Company” or “Chalice”) derives substantially all of its revenues from the cannabis industry in certain states (“States”, each a “State”) of the United States of America (“U.S.” or “United States”), which industry is illegal under U.S. federal law. The Company is a vertically-integrated operator in the U.S. cannabis sector, with a retail portfolio in the State of Oregon and associated operations in the State of Nevada (which are currently inactive), and California.

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811), which places controlled substances, including marijuana (defined as all parts of the plant *Cannabis sativa* L. containing more than 0.3 percent tetrahydrocannabinol (“THC”)) in a schedule. Marijuana (also referred to as Cannabis) is classified as a Schedule I drug. Under United States federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. The United States Food and Drug Administration has not approved marijuana as a safe and effective drug for any indication.

In the United States, marijuana is largely regulated at the State level. State laws regulating cannabis are in direct conflict with the federal Controlled Substances Act, which makes cannabis use and possession federally illegal. Although certain states authorize medical or adult-use cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal, and any such acts are criminal acts under federal law. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and State law, the federal law shall apply. Under President Barack Obama, the U.S. administration attempted to address the inconsistencies between federal and state regulation of cannabis in a memorandum sent by then-Deputy Attorney General James Cole to all United States Attorneys in August 2013 (the “Cole Memorandum”). The Cole Memorandum acknowledged that notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several States have enacted laws relating to cannabis for medical and recreational purposes. In March 2017, then newly-appointed Attorney General Jeff Sessions, a long-time opponent of State-regulated medical and recreational cannabis, noted limited federal resources and acknowledged that much of the Cole Memorandum had merit; however, he had previously stated that he did not believe it had been implemented effectively.

On January 20, 2021, Joseph R. Biden Jr. was sworn in as the new President of the United States. During his campaign, he stated a policy goal to decriminalize possession of cannabis at the federal level. However, he has not publicly supported the full legalization of cannabis. It is unclear how much of a priority decriminalization may be for President Biden’s administration. President Biden nominated federal judge Merrick Garland to serve as his Attorney General. During his confirmation hearings in the Senate on February 22, 2021, Attorney General nominee Garland confirmed that he would not prioritize pursuing cannabis prosecutions in states that have legalized and that are regulating the use of cannabis, both for medical and adult use.

It is unclear what impact, if any, the new administration will have on U.S. federal government enforcement policy on cannabis. Nonetheless, there is no guarantee that the position of the Department of Justice will not change.

There is no guarantee that State laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of State laws within their respective jurisdictions. Unless and until the United States Congress amends the Controlled Substances Act with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that U.S. federal authorities may enforce current U.S. federal law. If the U.S. federal government begins to enforce U.S. federal laws relating to cannabis in States where the sale and use of cannabis is currently legal, or if existing applicable State laws are repealed or curtailed, the Company’s business, results of operations, financial condition and prospects would be materially adversely affected. See “Overview of United States Regulation of Cannabis”.

**In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* (“Staff Notice 51-352”) setting out the Canadian Securities Administrator’s disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with 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's involvement in the U.S. cannabis market may subject the Company to heightened scrutiny by regulators, stock exchanges, clearing agencies and other U.S. and Canadian authorities. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the U.S. or any other jurisdiction.**

**There are a number of risks associated with the business of the Company. See “Overview of United States Regulation of Cannabis” and “Risk Factors”.**

### **Explanatory Notes**

In this Annual Information Form (the “AIF”), information is given as of December 31, 2020, the financial year end of Chalice Brands Ltd. (the “Company” or “Chalice”), unless otherwise specifically stated.

Unless otherwise indicated, all currency amounts in this AIF and references to “\$” are stated in US dollars.

On May 25, 2021 the Company consolidated the Common Shares on a 23 (old) for 1 (new) basis (the “Consolidation”). Unless otherwise noted, information is presented herein on a post-Consolidation basis.

Market and industry data used throughout this AIF was obtained from various publicly available sources. Although the Company believes that these independent sources are generally reliable, the accuracy and completeness of such information are not guaranteed and have not been verified due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and the limitations and uncertainty inherent in any statistical survey of market size, conditions and prospects.

This AIF should be read in conjunction with the Company’s audited consolidated financial statements and management’s discussion and analysis for the financial year ended December 31, 2020, available under the Company’s profile on the System for Electronic Document Analysis and Retrieval (“SEDAR”) website at [www.sedar.com](http://www.sedar.com).

The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

## Caution Regarding Forward-Looking Information

The information provided in this AIF, including information incorporated by reference, may contain “forward-looking information” about the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking information. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as “may”, “will”, “would”, “could”, “should”, “believes”, “estimates”, “projects”, “potential”, “expects”, “plans”, “intends”, “anticipates”, “targeted”, “continues”, “forecasts”, “designed”, “goal”, or the negative of those words or other similar or comparable words.

Forward-looking information may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations of the Company and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the availability of financing opportunities, legal and regulatory risks inherent in the medical marijuana industry, risks associated with economic conditions, dependence on management and currency risk; and
- other risks described in this AIF and described from time to time in documents filed by the Company with Canadian securities regulatory authorities.

Consequently, all forward-looking information in this AIF and other documents of the Company are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Company. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Company and/or persons acting on its behalf may issue. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation. See “*Risk Factors*”.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

Chalice Brands Ltd. is a corporation existing under the *Business Corporations Act* (Ontario). The registered office of the Company is located at 82 Richmond Street East, Toronto, Ontario, M5C 1P1 and its principal place of business is located at 13315 NE Airport Way, Suite 700 Portland, Oregon, 97230.

### Intercorporate Relationships

The following table illustrates the inter-corporate relationships between the Company and its direct and indirect subsidiaries, which together comprise the consolidated Company, and the jurisdiction of organization of each such entity, as at the date hereof:

Subsidiary	Place of incorporation	Effective ownership	Principal activity
Greenpoint Holdings Delaware, Inc.	Oregon	100%	Holding company in the U.S. and parent of all the entities below except for CBN Holdings, Inc., which is owned directly by the Company
Greenpoint Oregon, Inc.	Oregon	100%	Cannabis production, distribution, and sales
CFA Retail, LLC	Oregon	100%	Retail Cannabis sales
Greenpoint CBD, LLC	Nevada	100%	Industrial hemp processing
Greenpoint Real Estate, LLC	Oregon	100%	Ownership, administration, and leasing of real estate
GL Management, Inc.	Nevada	100%	Ownership and administration of intellectual property
Greenpoint Equipment Leasing, LLC	Oregon	100%	Ownership and leasing of capital equipment
Greenpoint Nevada, Inc.	Nevada	100%	Cannabis production, distribution, and sales
Greenpoint Workforce, Inc.	Oregon	100%	Employee leasing to operating subsidiaries in the U.S.
CF Greenpoint CA, Inc.	California	100%	Management of non-retail operations in California
CF US Franchising, Inc.	Oregon	100%	Management of franchising activities in the U.S.
Fifth & Root, Inc.	California	80%	Sales of CBD skincare products
SMS Ventures, LLC	Oregon	100%	Retail Cannabis sales
CBN Holdings	Nevada	100%	Holding company in the U.S.
CF Bliss LLC	Oregon	100%	Holding company in the U.S.

## GENERAL DEVELOPMENT OF THE BUSINESS

### THREE YEAR HISTORY

#### Financial Year Ended December 31, 2018

On March 8, 2018, the Company launched a new line of cannabis-infused edible Fruit Chews in Oregon under the “Golden” label. Featuring a combination of premium cannabis oil, real fruit and restorative ingredients, the new vegan fruit chews offer four bold flavours for consumers to choose from. On September 27, 2018, the State of Nevada approved the Company’s menu, equipment and floorplan for Golden Fruit Chew production to begin.

On April 24, 2018, the Company announced the signing of a letter of intent to acquire a cannabis dispensary currently in operation in Northern California. Under the terms of the LOI, Chalice would pay \$1.25 million in cash on closing and \$500,000 in Common Shares, with additional earn-out payments up to \$8 million based on future revenue thresholds. This agreement was subsequently terminated.

On May 1, 2018 the Company announced the opening of its long-awaited Happy Valley location, which was its seventh dispensary location.

On July 16, 2018, the Company announced the introduction of several cannabis concentrate product lines in the state of Nevada through its wholly-owned subsidiary, Greenpoint Nevada. The product launch included its Golden tinctures, offered in orange, cherry, mint, and strawberry flavours, and Golden Private Stash distillate vape cartridges.

On August 2, 2018, Chalice received its city regulatory license to operate its extraction facility in the city of Portland, Oregon. Immediately upon receipt of the city’s licence, the Company’s production team began operating the extraction equipment.

On August 10, 2018, Chalice signed a definitive agreement to acquire the assets of Tahoe Hydroponics Company and 11T Corp (collectively, “Tahoe”) for a purchase consideration of \$8.5 million in cash and common shares of the Company that would result in approximately 25% of the combined company being owned by Tahoe shareholders, based on a 20-day volume-weighted average price for the 20 days prior to closing. The agreement to acquire Tahoe was terminated on January 16, 2019.

#### Financial Year Ended December 31, 2019

In September and October 2019, the Company launched its Chalice Farms Chews line, the popular cannabis-infused fruit chews that include wellness-focused and restorative ingredients, in California and Nevada.

In August 2019, with greater than 98 percent support, the holders of the secured convertible debentures (the “2017 Debentures”) of the Company issued pursuant to an indenture dated as of November 2, 2017 approved the repayment of the principal amount of the convertible debentures of C\$12,961,000 and accrued interest of C\$190,815, via an early conversion on August 23, 2019 at C\$0.06 per share (equivalent to C\$1.38 post Consolidation). The Company issued 219,069,556 pre-Consolidation common shares (equivalent to 9,524,763 Common Shares post Consolidation) to repay the principal and accrued interest on the 2017 Debentures. The original maturity date of these debentures was November 2, 2019.

On December 31, 2019, the Company sold its two Canadian subsidiaries, Medical Marihuana Group Company (“MMG”) and Medical Marijuana Group Consulting Ltd. (“MMC,” and together with MMG, the “Canadian Operations”), to Sensi Brands Inc., a global cannabis consumer packaged goods company for a total purchase price of C\$3,400,000.

#### Financial Year Ended December 31, 2020

On January 8, 2020 the Company announced the launch of the RXO product line containing an ultra-pure pharmaceutical grade, full spectrum version of the popular Rick Simpson cannabis oil extract.

In February 2020, the Company's 10,000 square foot cultivation facility in Oregon ("Bald Peak"), produced its first harvest.

On February 3, 2020, the Company announced an agreement (the "Tozmoz Purchase Agreement") for the acquisition of the assets of Tozmoz, LLC ("Tozmoz"). The acquisition is subject to approval from the Oregon Liquor Control Commission (the "OLCC"), which is contingent upon approval of Clackamas County Certificate of Occupancy. Once occupancy status is received the OLCC can proceed with the license transfer. In the interim, the Company continues to work with Tozmoz through a consulting arrangement which allows for recognition by the Company of the revenues and expenses of Tozmoz. Pursuant to the terms of the Tozmoz Purchase Agreement, Chalice agreed to purchase substantially all of the assets of Tozmoz, including its facility located in Clackamas, Oregon, which serves as the headquarters for multiple extraction options, for consideration of \$2.8 million consisting of cash and advances totalling \$675,000, an earnout of up to \$400,000 and Common Shares (29,166,667 pre-Consolidation common shares at \$0.06 per share). The Company has previously made certain payments to Tozmoz such that only approximately \$227,000 of cash will be due at closing.

On July 6, 2020 the holders of unsecured convertible debentures (the "2018 Debentures") of the Company issued pursuant to an indenture dated as of November 18, 2018 agreed to an amendment to the terms of the 2018 Debentures to permit the Company to pay its interest obligations on the 2018 Debentures by issuing Common Shares.

On November 18, 2020, the Company announced it had reached an agreement in principle with the former owners of Chalice LLC ("Chalice") to modify the Chalice Earn-Out, which resulted in a reduction of its existing cash obligation of \$5,000,000 maturing on May 2, 2022 by 50% as well as structuring the remaining cash obligation of \$2,500,000 as an instalment plan carrying 6% interest to be paid over 60 months in equal monthly instalments of \$48,332. The \$2,500,000 reduction to the cash obligation was settled through the issuances of 41,666,667 pre-Consolidation common shares (equivalent to 1,811,594 Common Shares post-Consolidation). The prior equity component remained unchanged.

The Company has historically operated a wholesale business in the Nevada market based out of Sparks, Nevada. In late 2020, the Company placed this business on indefinite hold while it evaluates the economics of the Nevada market.

### **Developments Subsequent to Financial Year Ended December 31, 2020**

In January 2021, the Company received approval to amend certain terms of the 2018 Debentures. These amendments included extending the maturity date from November 16, 2021 to November 16, 2022, reducing the conversion price from C\$0.30 to \$0.06 per pre-Consolidation common share (equivalent to \$1.38 per Common Share post-Consolidation) and adding a one-time restructuring fee of 2% of the principal amount that was paid in Common Shares at a deemed price equal to \$0.06 per pre-Consolidation common share (equivalent to \$1.38 per Common Share post-Consolidation). The conversion price of the 2018 Debentures was adjusted to \$1.38 per Common Share as a result of the Consolidation.

In January 2021, the Company closed a non-brokered private placement and issued 4.7 million units priced at C\$0.69 per unit for gross proceeds of approximately C\$3.3 million. Each unit was comprised of one Common Share and one Common Share purchase warrant, with each warrant exercisable to acquire one Common Share at an exercise price of C\$1.38 per share for a period of 24 months. Finder's fees of 5% cash and 5% finder's warrants, each such warrant entitling the holder to acquire one Common Share for C\$1.38 per share for a period of 24 months, were paid on certain subscriptions. Concurrently with this private placement, the Company issued 0.4 million units at C\$1.15 per share in lieu of unpaid 2020 compensation to certain officers and directors, for a total settlement of C\$404,528. In March 2021, the Company closed a second non-brokered private placement and issued 7.0 million units priced at C\$1.495 per unit for aggregate gross proceeds of C\$7.2 million. Each unit was comprised of one Common Share and one Common Share purchase warrant, with each warrant exercisable to acquire one Common Share at an exercise price of C\$2.30 per share for a period of 24 months. In connection with this non-brokered placement, the Company also issued 0.1 million finder's warrants to eligible finders. These warrants are exercisable at C\$2.30 per Common Share for 24 months. The proceeds of these two offerings will be used by the Company for strategic retail license acquisitions and for general corporate purposes.



On April 8, 2021, the Company announced the 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 pre-Consolidation common share (equivalent to \$1.38 per Common Share post-Consolidation).

On May 19, 2021, the Company completed the 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, for total consideration of approximately \$9.75 million.

On May 25, 2021 the Company changed its name to Chalice Brands Ltd. and consolidated the Common Shares on a 23 (old) for 1 (new) basis. The ticker symbol for the Common Shares on the CSE was concurrently changed to “CHAL”. On June 2, 2021 the Company announced the change of its OTC ticker symbol from GLDFF to “CHALF” on the OTCQB.

Effective September 16, 2021, the Company entered into an asset purchase agreement and a services agreement to acquire four retail stores branded "Cannabliss & Co." from Acreage Holdings, Inc. ("Cannabliss"), located in Portland, Eugene, and Springfield, Oregon, for total consideration of US\$6.5 million (less US\$500,000 working capital surplus required to be left by the seller). Under the terms of the asset purchase agreement, Chalice will acquire the assets of the four Cannabliss retail dispensaries for total consideration of US\$6.5 million, consisting of US\$250,000 cash payment at the time of signing, offset by working capital surplus of US\$500,000, plus a 10-month secured promissory note for US\$6.25 million carrying interest of 6% for the first five months, 10% for the remaining five months, if necessary. Under the terms of the services agreement, Chalice is immediately operating the Cannabliss retail stores, including staffing, pricing, and procurement. The closing of the transaction is subject to approval by the Oregon Liquor and Cannabis Commission and the satisfaction of other closing conditions.

## **DESCRIPTION OF BUSINESS**

### **General**

Chalice is a vertically integrated cannabis company based out of Portland, Oregon with operations primarily in and around the Portland, Oregon area. Effective May 25, 2021, the Company changed its name from Golden Leaf Holdings Ltd. to Chalice Brands Ltd. and effected the Consolidation.

The Company has two reporting segments: (i) Oregon; and (ii) Corporate and Other. All revenues reported are from sales to third parties.

### **Oregon**

The Company has long owned seven retail stores in the Portland area, six branded as Chalice Farms and one branded as Left Coast Connection. On May 19, 2021 the Company acquired Homegrown, a chain of five stores: three in Salem, Oregon just south of Portland, one in Albany, Oregon in the Willamette Valley and another located in the Portland area, bringing the Company’s total store count to 12. On September 16, 2021, the Company entered into an asset purchase agreement and a services agreement to acquire 4 retail stores branded "Cannabliss & Co." from Acreage Holdings, Inc. Under the terms of the services agreement, Chalice is immediately operating the Cannabliss retail stores, including staffing, pricing, and procurement.

The Company also distributes its branded products to other retailers in the Oregon wholesale market. These operations are supported by the same distribution infrastructure used for the Company's retail stores, at the Company’s headquarters in Portland.

The Company also has a cultivation facility outside of Portland called “Bald Peak”, which, as of June 30, 2021, supplies approximately 20% of the cannabis flower sold through the Company’s twelve retail stores.

### **Corporate and Other**

In California, the Company currently works with two contract manufacturing vendors and utilizes outsourced distribution that manufacture and distribute the Company's Chalice Chews and Elysium Fields products. The Company

collects licensing and royalty fees from these vendors. It does not have operations otherwise in California. The Company does not yet consider this market is a reportable segment.

The Company has historically operated a wholesale business in the Nevada market based out of Sparks, Nevada. In late 2020, the Company placed this business on indefinite hold while it evaluates the economics of the Nevada market. As of the date of this AIF, expenses related to ongoing storage of fixed assets and various administrative costs are nominal.

The Company continues to work to integrate and grow its recently acquired Fifth & Root CBD skincare business and will classify this business as a part of Corporate and Other until revenues are sufficiently material to justify reporting as a separate segment.

## Retail Operations

The Company owns and operates a network of 16 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” and five operating as “Homegrown Oregon.” The Company operates 4 Cannabliss stores under a services agreement with Acreage Holdings, Inc. pending the transfer of such stores to the Company. 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 to be replicable across different markets. Chalice is dedicated to enhancing customer experience and optionality that results in high customer retention and repeat customers.

Below is a summary of the Company’s owned dispensaries:

Property	Banner	Address	Square Footage
Suite 700A	Retail - Chalice	13315 NE Airport Way, Suite 700 Portland OR 97230	2,500
Happy Valley	Retail - Chalice	15252 SE Highway 224, Suite B Damascus OR 97089	2,260
Dundee	Retail - Chalice	1778 SW Highway 99, Dundee OR 97115	1,886
Left Coast Connections	Retail - LCC	10055 NE Glisan St, Portland, OR 97220	1,310
Naito	Retail - Chalice	833 SW Naito Parkway, Portland, OR 97204	1,750
Powell	Retail - Chalice	5333 SW Powell Blvd, Portland, OR 97206	2,761
Tigard	Retail - Chalice	16735 SW Pacific Highway, Tigard, OR 97724	2,190
Albany	Retail - HomeGrown	921 SE 9th Ave, Albany, OR 97322	720
Beaverton	Retail - HomeGrown	6330 SW Beaverton Hillsdale Hwy, Portland, OR 97221	1,628
Edgewater	Retail - HomeGrown	1077 Edgewater St NW, Salem, OR 97304	650
Lansing	Retail - HomeGrown	1803 Lansing NE, Salem, OR 97301	1,400
Liberty	Retail - HomeGrown	2820 Liberty St NE Salem OR 97303	2,500

The Cannabliss dispensaries are all located in Oregon and include two in Portland, one in Eugene, and one in Springfield. Two of the store locations are in buildings that are on the national registry of historic places – Sorority House in Eugene and Firestation 23 in Portland. The Firestation 23 location was the first adult use dispensary to open in the city of Portland and was Oregon's first medical marijuana dispensary.

## 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. In Oregon, the Company shares a 25,000 ft<sup>2</sup> facility between its Corporate Headquarters and its primary distribution facility in Portland. Roughly half of this facility is devoted to the Company’s Airport Way dispensary and HQ and half is devoted to edibles production and wholesale distribution activities. The

Company also operates under a consulting agreement with Tozmoz, LLC whereby Tozmoz provides all extraction activities for Chalice as well as running a third-party processing business which Chalice assists by way of sales, marketing and administrative support. Tozmoz operates under two adjacent 6000 ft<sup>2</sup> suites in Clackamas, Oregon, just southeast of Portland. The Company's 10,000 ft<sup>2</sup> Bald Peak grow facility is located west of Portland and contributes over 20% of the Company's flower sales at its retail stores.

In California the Company licenses its brands Chalice™ and Elysium Fields™ to two outsourced manufacturing vendors for production of Chalice edible and extract products. The Company owns no licenses or production facilities in California.

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 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 through a third-party distributor.

In Oregon, the Company distributes to over 200 third party retailers through its subsidiary Greenpoint Oregon. The Company also operates under a consulting arrangement with Tozmoz LLC to provide third party toll processing and white label packaging solutions to cultivators, wholesalers and brands in the Oregon market. The Company has a pending acquisition of the assets of Tozmoz, LLC and has been operating under a consulting arrangement with Tozmoz since July of 2019.

### **Cultivation**

Bald Peak produced its first harvest in early 2020. As of the date of this AIF, Bald Peak is now contributing significantly to the Company's fully vertically integrated operations in Oregon and continues to be optimized for improved outputs. This facility currently supplies over 20% of the flower sold in the Company's retail stores (not including the Cannabliss stores). The Company may also at times sell flower from Bald Peak on the Oregon wholesale market and contribute residual biomass from Bald Peak to its extraction operations as available. Year to date, Bald Peak has averaged an output of roughly 250lb per month across all grades of flowers

### **New Product Development and Marketing**

The Company's product development and marketing team develop high quality, scalable cannabis products on the West Coast, specifically for the Oregon and California markets. These products are supported by consumer-conscious branding that appeals to various market segments, with each brand tailored to a specific audience within the consumer value spectrum. The team has developed proprietary manufacturing processes for new products, such as Chalice™ Fruit Chews, and has additional new products in the production pipeline. The Company's products are sold under the brand names Elysium Fields™, Chalice™, and Private Stash.

**Elysium Fields™** is the Company's craft brand tailored for the 25+ male demographic. Elysium Fields™ is the truest expression of the plant and is aimed at "cannabis connoisseurs". The Elysium Fields line includes live resin vaporizer cartridges, live resin infused tinctures, Bald Peak craft flower and pre-rolls, as well as rosin, waxes, and other dabbable products.

**Chalice™** is the Company's wellness-centric brand tailored for the female head of household and is anchored by Chalice™ Fruit Chews, which offer effect-based formulations such as Energy, Calm and Sleep. The Chalice™ brand also includes Fifth & Root™, a line of CBD and terpene-based skincare products, which offer clean and high vibrational products to the US market.

**RXO™** is the Company's medically focused brand tailored for the aging consumer with lifestyle needs such as pain and sleep management. The RXO™ line was developed in partnership with medical doctors and includes topical patches, shatter, cartridges, and tankers.

**Private Stash™** is focused on fun, novelty and potency and is tailored for the 21+ price sensitive customer. The Private Stash™ brand includes flavored distillate vaporizer cartridges, infused pre-rolls and blast edibles.

All products are independently lab-tested and certified for pesticides, contaminants and potency before being packaged and labeled with detailed information regarding the levels of THC and CBD contained in each product.

### **Specialized Skill & Knowledge**

A primary specialized skill unique to the cannabis industry is with respect to the growing of product and the extraction of cannabis oils. Growing cannabis requires certain technical skills and expertise. During 2020 the Company hired Meghan Miller as Chief Cannabis Cultivation and Community Officer and Derek Raythorn as Director of Cultivation adding over 30 years of cultivation and cannabis genetics experience as well as multiple awards to the Company's roster. Joel Klobas is the VP of Production and an expert in cannabis extraction, utilizing his experience in refrigeration, energy management and building controls to provide top shelf CO2 oil, BHO shatter and waxes.

Management has over 75 years of combined retail experience, over 40 years cannabis industry experience and over 40 years' experience in Fortune 25 companies.

### **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. Chalice has established and repaired myriad supplier relationships since the beginning of 2020 which has led to consistent supply and favourable terms and pricing. The Company is one of the top ten operators in Oregon with twelve stores (not including the Cannabliss stores) on top of its wholesale operations.

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 have not recurred 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.

## **Components**

The Company sources raw materials from external parties and from Bald Peak. Trim is the highest cost component of the production costs of the Company's products. The Company both manufactures and procures distillate in finished form to supply its high volume of products reliant on this input. The key raw materials are: Cannabis Trim, Cannabis Flower and THC Distillate oil. Production costs of 1 gram of distillate oil are approximately \$4 per gram. Of this \$3.67 is the cost of Trim as of June 30, 2021. The Company pays market rates for externally procured trim which is subject to fluctuations based on seasonality and other factors. The remainder is labor, ingredients such as solvents, utilities, and testing.

## **Intangible Properties**

The Company uses the trademarks Elysium Fields™, Chalice™, and Private Stash™ on its branded products and Chalice Farms™ on its 6 of its 12 retail stores (not including the Cannabliss stores). Each of these trademarks is registered in the State of Oregon and Chalice Farms is registered federally in the United States. The Company has established and continues to build its portfolio of intellectual property and considers it to be an important value adding aspect of its business. The duration of the protection afforded by the Company's intellectual property registrations varies by the nature of each registration.

## **Cycles**

The Company currently depends on procurement of raw materials from farmers in Oregon operating seasonally producing outdoor grows, indoor and greenhouse growers with continuous production, and processors within Oregon with continuous production. The Company supplies a portion of its distillate requirements internally. Pricing can be subject to volatility based on seasonality, however a reduction in reliance on the fall harvest from outdoor farms has led to improved stability of commodity pricing and availability.

## **Economic Dependence**

The Company is not substantially dependent on one single large contract. It serves a broad-based platform of dispensaries in Oregon. Equally, the Company is not dependent on any single contract for the purchase of raw materials that could affect the Company in operating its business.

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 Company's 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.

## **Changes to Contracts**

Other than leases for its downtown retail store and its Corporate headquarters, the Company has no material contracts which will be renegotiated in the current year which may have an impact on the Company's business or financial prospects. The Company's downtown retail store has been affected by COVID-19 and other factors during 2020 and early 2021 and currently does not contribute significantly to the Company's financial returns. The Company's corporate headquarters and primary warehouse is leased from a former director and large shareholder and should be able to be renewed with no material changes to terms.

## **Employees and Management**

The Company, inclusive of its subsidiaries, has a total of 265 full-time employees and 48 part-time employees.

## Foreign Operations

All of the Company's operations are in the United States.

## Principal Markets

The Company primarily operates in the Oregon adult-use cannabis market through its wholly owned, licensed subsidiaries. The Company operates or recently operated in California and Nevada through outsourced manufacturing and distribution relationships. The Company has historically operated a wholesale business in the Nevada market based out of Sparks, Nevada. In late 2020, the Company placed this business on indefinite hold while it evaluates the economics of the Nevada market.

## OVERVIEW OF UNITED STATES REGULATION OF CANNABIS

On February 8, 2018 the Canadian Securities Administrators (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.

<b>Asset Name, Date of Organization</b>	<b>Description</b>	<b>Type of Relationship, Jurisdiction, Classification</b>
<b>Greenpoint Holdings Delaware, Inc.</b>  <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 the Company <u>Jurisdiction:</u> Oregon, California, Nevada <u>Classification:</u> Direct
<b>Greenpoint Oregon Inc.</b>  <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
<b>CFA Retail, LLC</b>  <i>January 2016</i>	CFA Retail, LLC is a network of cannabis retail dispensaries located in Oregon operating under "Chalice Farms" and "Left Coast Connections"	<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
<b>Greenpoint Nevada, Inc.</b>	Greenpoint Nevada, Inc. is an indoor high-quality cannabis cultivation,	<u>Type of relationship:</u> Greenpoint Nevada Inc. is a wholly-owned

<i>May 2017</i>	production/manufacturing facility and a wholesale operation. Greenpoint 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.	subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction:</u> Nevada <u>Classification:</u> Direct
<b>Greenpoint Equipment Leasing LLC (Oregon)</b> <i>January 2016</i>	Greenpoint Equipment Leasing (OR) is located in Portland, Oregon and will lease 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
<b>Greenpoint Real Estate LLC (Oregon)</b> <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
<b>Greenpoint Workforce, Inc.</b> <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
<b>GL Management Inc.</b> <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
<b>CF Greenpoint CA, Inc.</b> <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
<b>SMS Ventures, LLC, dba Homegrown Oregon</b>	SMS Ventures, LLC, operates five retail dispensaries located in Oregon under the name of "Homegrown".	<u>Type of relationship:</u> SMS Ventures, LLC is a wholly-owned subsidiary of Greenpoint Holding Delaware, Inc. <u>Jurisdiction:</u> Oregon <u>Classification:</u> Direct
<b>Fifth and Root, Inc.</b>	Fifth and Root is a CBD skincare brand distributor based in California.	<u>Type of relationship:</u> Fifth and Root, Inc. is an 80% owned subsidiary of Greenpoint Holdings Delaware Inc. <u>Jurisdiction:</u> California <u>Classification:</u> N/A

The following table is a summary of Chalice's balance sheet exposure to U.S. cannabis-related activities:



	June 30, 2021	December 31, 2020
Current Assets	\$ 9,188,730	\$ 5,894,789
Non-current assets	36,143,340	22,123,222
Total assets	\$ 45,332,070	\$ 28,018,011
Current liabilities	7,863,129	11,375,430
Non-current liabilities	21,424,218	11,170,383
Total liabilities	\$ 29,287,347	\$ 22,545,813

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 December 31, 2020:

- Inventory: 100% (December 31, 2019: 100.0%)
- Property plant & equipment: 100% (December 31, 2019: 100.0%)
- Intangible assets and goodwill: 100% (December 31, 2019: 100.0%)

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

	For the year ended December 31, 2020	% of consolidated total
Revenue	\$ 21,909,156	100%
Cost of sales	15,151,444	100%
Gross profit	6,757,712	100%
Less operating expenses	11,066,971	90%
Net loss	\$ (4,309,259)	77%

## 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 moving 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.

On December 14, 2020, former President Trump announced that William Barr would be resigning from his post as Attorney General, effective December 23, 2020. Merrick Garland, President Biden's nominee to succeed Mr. Barr, has served as the current attorney since March 2021. It is unclear what specific impact the new Biden administration will have on U.S. federal government enforcement policy. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law.

The Company believes it is too soon to determine if any prosecutorial policy at the federal level will be forthcoming in the absence of the Cole Memorandum, or if the Biden administration will reinstitute the Cole Memorandum or a similar guidance document for United States attorneys or by executive order. The sheer size of the cannabis industry, in addition to various levels of legalization at the State and local governments, suggests that a largescale enforcement operation would possibly create unwanted political backlash for the Department of Justice (“DOJ”) and the new administration. Moreover, State and local tax revenues generated by the cannabis business is an increasingly important source of funding for State and local government programs.

## **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 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.<sup>1</sup> Senator Booker has also introduced the Marijuana Justice Act, which would de-schedule marijuana.

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 would amend the U.S. Controlled Substances Act to conform to the policies of individual states.<sup>2</sup> As noted above, this bill was re-introduced on April 4th, 2019. 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. As of September 18, 2019, the House bill had 206 cosponsors, and the Senate bill had 33 cosponsors. As of September 21 2021 the SAFE Banking act has been added to the National Defense Authorization Act for 2022 and is expected to be voted up by the House of representatives.

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,

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<sup>1</sup> 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>.

<sup>2</sup> 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/>

governors of certain states in which the Company does business, have begun 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 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 the Company'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.

### **Compliance of United States Operations**

The Company, 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.

### ***Oregon State Regulation***

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.

The Oregon Medical Marijuana Program (“OMMP”) allows individuals with a physician-determined medical history of one or more qualifying illnesses and a doctor’s written statement to apply for registration with the OMMP. Qualified applicants are issued a : and are known as “patients”. A patient is allowed to possess up to 24 ounces of dried plant material. In addition, a patient may legally grow up to 18 starts and seedlings (i.e., plants that are not flowering and less than 12 inches in height or diameter) and six mature cannabis plants (i.e., plants that are not starts or seedlings). Patients are permitted to designate another person as a “caregiver” and another person as a “grower” on their behalf. Caregivers are individuals (other than a patient’s attending physician) who are at least 18 years old and are responsible for managing the well-being of a patient. Patients are limited to a single caregiver who must be formally designated by the patient on the patient’s application for a registry identification card or other written notification to the OMMP. The caregiver is issued a registry identification card allowing them to transport cannabis for the patient within the allowable limits, as long as the caregiver is in possession of their registry identification card. Growers are persons who have been formally designated by a patient to grow their medical marijuana. Although each patient can only have one designated grower, a person may be designated as a grower for up to four patients. A grower must provide all marijuana produced for a patient or caregiver to the patient at the time the grower ceases producing marijuana for the patient or caregiver. Patients or their caregivers may reimburse the grower for the costs of supplies and utilities associated with the production of the marijuana; however, no other costs, including labour, are reimbursable to the grower. Patients, their caregivers and growers may also legally deliver marijuana to each other, and to other third-party patients, if the delivery is made without consideration (i.e., a “donation”). The privileges which normally protect patients, caregivers, and growers from citation, arrest, and penalty do not excuse possession, manufacture, or delivery in cases where they are simultaneously guilty of certain offenses listed in the Oregon Medicinal Marijuana Act, such as driving under the influence of marijuana or using marijuana in public.

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.

The OLCC has the authority to decide how many licenses to allow in a specific area or location and may refuse to grant a license if there are reasonable grounds to believe there are sufficient licenses in the area or if the license grant is “not demanded by public interest or convenience.” The OLCC may disqualify applicants for a number of reasons, including: (i) lack of good moral character; (ii) insufficient financial resources; (iii) lack of responsibility; (iv) relevant past convictions; or (v) “excess” use of marijuana, alcohol, or drugs.

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 Company's subsidiaries:

Holder	Licence Type	License Number	Description	Summary
Greenpoint Oregon Inc.	OLCC - Producer	020-10087170927	Bald Peak Chalice Farms	Producer – cannabis cultivation
	OLCC - Processor	030-1003213EDB2	Suite 400 - Processor, Wholesale, Chalice Farms	Oregon processing Airport Way
	ONI - Processor	MRL 828-20	Suite 400 - Processor, Wholesale, Chalice Farms	Oregon processing Airport Way
	OLCC - Processor	030-100384161D7	Suite 700 - Processor, Wholesale, Chalice Farms	Oregon processing Airport Way
	ONI - Processor	MRL 959-20	Suite 700 - Processor, Wholesale, Chalice Farms	Oregon processing Airport Way
	OLCC - Wholesale	060-1003227DB77	Suite 400 - Processor, Wholesale	Oregon processing Airport Way
	ONI - Wholesale	MRL 11427	Suite 400 - Processor, Wholesale	Oregon processing Airport Way
	OLCC - Wholesale	060-10046405D93	Suite 700 - Processor, Wholesale, Chalice Farms	Oregon processing Airport Way
	ONI – Wholesale	MRL 434	Suite 700 - Processor, Wholesale, Chalice Farms	Oregon processing Airport Way
	OLCC - Processor	030-1017201A3A9	TOZMOZ/GPO Application	Tozmoz processing - pending
CFA Retail, LLC	OLCC - Retailer	050-10079928B63	Dundee Chalice Farms	Retail licence for Dundee, OR

	OLCC - Retailer	050-1007989F581	Powell Chalice Farms	Retail licence for Portland, OR
	ONI - Retailer	MRL 682	Powell Chalice Farms	Retail license for Portland OR
	OLCC Retailer	050-10079902125	Naito Chalice Farms	Retail license for Portland OR
	ONI - Retailer	MRL 683	Naito Chalice Farms	Retail license for Portland OR
	OLCC - Retailer	050-10079919CD9	Tigard Chalice Farms	Retail licence for Tigard, OR
	OLCC - Retailer	050-1007988A80E	Airport Way Chalice Farms	Retail licence for Portland, OR
	ONI - Retailer	MRL 681-20	Airport Way Chalice Farms	Retail licence for Portland, OR
	OLCC - Retailer	050-10025185011	Left Coast Connections	Retail licence for Portland, OR
	ONI - Retailer	MRL 205	Left Coast Connections	Retail licence for Portland, OR
	OLCC - Retailer	050-10086554F25	Happy Valley Chalice Farms	Retail licence for Damascus OR
SMS Ventures, LLC	OLCC - Retailer	050-1016990CA13	Albany Homegrown	Retail license for Albany, OR
	OLCC - Retailer	050-10169911EE0	Beaverton Homegrown	Retail license for Beaverton, OR
	ONI - Retailer	MRL 22155	Beaverton Homegrown	Retail license for Beaverton, OR
	OLCC - Retailer	050-10169922BD5	Edgewater Homegrown	Retail license for Salem, OR
	OLCC - Retailer	050-1016993F313	Lansing Homegrown	Retail license for Salem, OR
	OLCC - Retailer	050-1016995D03E	Liberty Homegrown	Retail license for Salem, OR

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 retailers and 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 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. This temporary rule will remain in effect until expiration of the Governor's COVID Emergency Declaration. As of April 29<sup>th</sup>, 2021 Governor Kate Brown signed a 7<sup>th</sup> extension of the Emergency Declaration, keeping it in effect through at least June 29<sup>th</sup>, 2021. On June 30, 2021 these executive orders were rescinded, with various effective dates based on each executive order. 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 12 retail stores (not including the Cannabliss stores) have begun utilizing the Home Delivery endorsement on the Retail licenses.

Licensees are subject to various security and transportation requirements, and are subject to certain inspection and reviews by the OLCC:

### ***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 three 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.

Oregon state law prohibits marijuana from being consumed in public or while driving. The OLCC is tasked with making recommendations to the legislature about possible revisions to driving under the influence laws.

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 has 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 legislative and regulatory environment in the state of Oregon is dynamic and reflects the current uncertainty and the search for novel solutions in the highly-regulated cannabis industry.

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.

***Nevada State Regulation***

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 Adult Use and Medical Cultivation Licenses and both Adult Use and Medical Product Manufacturing Licenses to Greenpoint Nevada, Inc.

Management considers Nevada operations to be on a long-term pause. The Company has renewed the following licenses and may be sold or implemented if operations were resumed.

<b>Holder</b>	<b>Licence Type</b>	<b>License Number</b>	<b>Description</b>	<b>Summary</b>
Greenpoint Nevada, Inc	Adult Use Cultivation	RC045	Sparks Cultivation	Cultivation - Paused
	Medical Cultivation	C045	Sparks Cultivation	Cultivation - Paused
	Adult Use Production	RP027	Sparks Processing	Processing - Paused
	Medical Processing	P027	Sparks Processing	Processing - Paused

The cultivation licenses would 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 28, 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.

Nevada Administrative Code 453D provides a regulatory framework that outlines the function of the DOT Marijuana program. Subsections of this chapter outline licensing and enforcement guidelines which guide the DOT. 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.

Licensees under the DOT are subject to various licensing, security, transportation and storage requirements, and are also subject to announced and unannounced inspections:

### ***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.

### ***California State Regulation***

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.

Until California can successfully bring the three 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.

Chalice does not currently own licenses in California but licenses and distributes its branded products through two manufacturing vendors. Chalice currently employs two sales representatives in California who coordinate with its manufacturing vendors to distribute Chalice branded products within the State of California.

### ***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 state's 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.

## **RISK FACTORS**

The following are certain risk factors relating to the business carried on by the Company that prospective investors should carefully consider before deciding whether to purchase Common Shares or any other securities of the Company. Chalice will continue to face a number of challenges in the continuing development of its business. Due to the nature and present stage of the Company's business, the Company may be subject to significant risks. Readers should carefully consider all such risks, including those set out in the discussion below. The following is a description of the principal risk factors affecting the Company.

### **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 and 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 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.

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.

Federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company will be able to maintain its existing accounts or obtain new accounts in the future; and although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

As of the date of this AIF, 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 State of Oregon,
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 state of California.

***There are risks related to variation in state regulation in the States in which the Company does or may operate***

Individual state laws do not always conform to the U.S. federal regulations or to other states' laws. A number of states have decriminalized marijuana to varying degrees, other states have created exemptions specifically for medical cannabis, and several have both decriminalization and medical laws. Eleven U.S. states have legalized the recreational use of cannabis. 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. Active enforcement of state laws that prohibit personal cultivation of marijuana may indirectly and adversely affect the Company's future cash flows, earnings, results of operations and financial condition.

***Potential changes in cannabis laws could adversely affect the Company's business***

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.

### ***Risks of the United States banking system***

Since the use and sale of marijuana is illegal under U.S. federal law, banks have commonly concluded that they cannot accept nor 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."

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.

***The Company's subsidiaries operate in a new industry that is highly regulated, highly competitive and evolving rapidly and 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 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 unfavourable 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.

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.

### **Risks Related to the Company's Business**

***The Company faces a number of operational risks to both its retail operations and its cultivation and processing business***

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 is subject to oversupply risks***

The Company currently does not cultivate sufficient cannabis to supply itself with enough 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.

Previously disclosed oversupply issues in Oregon are now largely stabilized. Prices of flower and cannabis leaves and small flowers ("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 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.

***The Company may not be able to access capital when needed***

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 of approximately C\$13 million. The Company has an ongoing 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.

***There is ongoing 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 provisions of Internal Revenue Code section 280E adversely impact our results***

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.

***Rapid growth and consolidation may cause the Company to lose key relationships and may 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.

***There are 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.

***Third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations***

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.

***Compliance with and breaches of environmental and employee health and safety regulations can be costly***

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.

***The Company's products may be subject to recall or return, and expose the Company to product liability claims***

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.

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.

***The Company's margins are vulnerability to rising input costs***

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. The Company's cannabis growing operations consume considerable energy, which makes 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.

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.

***A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition, and prospects***

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.

***A breach in security or theft, the loss of cannabis plants, cannabis oils, cannabis flowers or cultivation and processing equipment could have a material adverse impact***

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 or 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.

***The Company has been and may be required to obtain and maintain certain permits, licenses and approvals, which 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.

***Cannabis may face 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.

***Cannabis may be subject to unfavorable publicity or consumer perception***

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis 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 favourable 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 favourable 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.



***The Company's participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries***

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 \$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 the 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.

***The Company's success is dependent upon the ability, expertise, judgment, discretion, and good faith of senior management and employees***

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.

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.

***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***

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. The future of the Company 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 may impact the Company's results***

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.

***It may be difficult to serving process on the directors and officers***

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.

***The Company is subject to 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.

***There can be no assurance that insurance coverage will be available or sufficient to cover claims to which the Company may become subject***

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.

***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***

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.

**Risk Related to the Common Shares of the Company**

***Holders of Common Shares have 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.

***Publicly traded securities are volatile***

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.

***The Company's limited operating history makes evaluating its business and prospects difficult***

The Company has a limited operating history on which to base an evaluation of its business, financial performance and prospects. As such, the Company's business and prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in early development stages. As the Company is in an early development stage and is introducing new products, the Company's revenues may be materially affected by the decisions, including timing decisions, of a relatively consolidated customer base. The Company has had limited experience in addressing the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly companies in new and rapidly evolving industries such as the medical and recreational marijuana industries. There can be no assurance that the Company will be successful in addressing these risks, and the failure to do so in any one area could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

***The continued operation of the Company may be dependent upon its ability to procure additional financing***

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.

## **DIVIDENDS**

The Company has not paid dividends in the past and the Company has no present intention of paying dividends in the future. The Company expects to retain any earnings to finance growth, and where appropriate, to pay down debt. Any determination to pay any future dividends will remain at the discretion of the Board and will be made based on the Company's earnings, financial requirements and other conditions deemed relevant by the Board. There are currently no restrictions on the ability of the Company to pay dividends except as set out under the OBCA. Holders of Common Shares are entitled to an equal share in any dividends declared and paid on the Common Shares.

## DESCRIPTION OF SHARE CAPITAL

The Company is authorized to issue an unlimited number of Common Shares. As of the date hereof, there are a total of 59,224,100 Common Shares issued and outstanding.

All of the Common Shares are of the same class and, once issued, rank equally as to entitlement to dividends, voting powers (one vote per share) and participation in assets upon dissolution or winding up. No common shares of the Company have been issued subject to call or assessment.

There are no pre-emptive rights, no conversion or exchange rights, no redemption, retraction, purchase for cancellation or surrender provisions. There are no sinking or purchase fund provisions, no provisions permitting or restricting the issuance of additional securities or any other material restrictions, and there are no provisions which are capable of requiring a security holder to contribute additional capital.

Additionally, as at the date hereof, the Company has warrants outstanding to purchase an aggregate of 12,011,200 Common Shares; options outstanding to purchase an aggregate of 4,664,007 Common Shares; and C\$4,115,000 in principal amount of unsecured convertible debentures that are convertible into 4,829,917 Common Shares.

## MARKET FOR SECURITIES

### Trading Price and Volume

The Common Shares were first listed for trading on the CSE under the symbol “GLH” on October 14, 2015. Effective May 25, 2021 the Company changed its name to Chalice Brands Ltd. and is currently traded under the symbol “CHAL”. The Common Shares are also traded on the OTCQB under the symbol “CHALF”. The following table sets forth, for the months indicated, the reported high and low prices and the aggregate volume of trading of the Common Shares on the CSE during 2020.

Date	High (C\$)	Low (C\$)	Volume
January	0.5750	0.3450	808,447
February	0.5750	0.3450	634,727
March	0.5750	0.2300	670,338
April	0.4600	0.3450	894,645
May	0.5750	0.3450	1,733,655
June	0.4600	0.3450	1,175,989
July	0.5750	0.3450	674,427
August	0.5750	0.3450	820,548
September	0.5750	0.4600	837,870
October	0.5750	0.4600	691,549
November	0.8050	0.4600	1,789,914
December	0.6900	0.4600	1,491,656

### Prior Sales

The following table summarizes details of issuances by the Company of securities not listed or quoted on a marketplace during the most recently completed financial year ended December 31, 2020.

Date of Issuance	Security	Number of Securities Issued	Exercise Price Per Security (\$)
June 30, 2020	Warrants	10,869	US\$0.92
September 7, 2020	Stock options	900,000	C\$1.38

### ESCROWED SECURITIES

The following table sets forth the number of securities of each class of the Company held, to the Company's knowledge, in escrow, and the percentage that number represents of the outstanding securities of that class as of the date hereof. The escrow shares relate to consideration payable for earn-out payments to three former owners of Chalice, LLC ("Chalice"), as part of the consideration in the July 2017 acquisition of the assets of CFA Products, LLC and the membership interest of CFA Retail, LLC.

Designation of Class	Number of Securities Held in Escrow	Percentage of Class
Common Shares	2,769,023	4.7%
Warrants	Nil	Nil
Options	Nil	Nil

## DIRECTORS AND OFFICERS

The following table sets forth for each director and executive officer of the Company, each such individual's name, province or state and country of residence, position(s) held with the Company, principal occupation(s) for the last five years, if currently a director, period(s) during which such individual has served as a director of the Company, and the number and percentage of issued and outstanding Common Shares beneficially owned, or controlled or directed, directly or indirectly, by such individual (for avoidance of doubt, excluding any convertible securities in the capital of the Company held by such individual). The statements as to principal occupation(s) for the last five years of, and the number and percentage of Common Shares beneficially owned, or controlled or directed, directly or indirectly, by, the directors and executive officers of the Company are in each instance based upon information furnished by the individuals concerned. All directors of the Company hold office until the next annual meeting of shareholders of the Company or until their successors are elected or appointed.

Name, Province/State and Country of Residence and Position(s) with the Company	Principal Occupation(s) for the Last Five Years	Period(s) Served as a Director	Number of Common Shares Beneficially Owned or Controlled or Directed	Percentage of Common Shares Beneficially Owned or Controlled or Directed
John Varghese <sup>(11)</sup> Ontario, Canada <i>Executive Chairman and Director</i>	Founder and CEO of Virtual Claims Adjuster Inc since 2019, specializing in insurance claims management software and web based technologies for the claims industry. CEO of JV Venture Partners since 2001.	Director since June 25, 2018	92,424 <sup>(3)</sup>	0.2%
Jeff Yapp <sup>(11)</sup> Oregon, United States <i>Chief Executive Officer, President and Director</i>	Founder and CEO of WutzNxt, a strategic marketing and consulting firm.	Director since September 2, 2019	176,987 <sup>(6)</sup>	0.3%
Andrew Marchington, CPA Oregon, United States <i>Chief Financial Officer</i>	CPA and Finance executive with public accounting background. Formerly held roles with Golden Leaf, C21 Investments, Cambia Health Solutions and Deloitte.	NA	65,217 <sup>(7)</sup>	0.1%
Rick Miller Oregon, United States <i>Director</i>	Founder and served as chairman of the Avamere Group and is presently CEO, also serves on the boards of Diabetomics, Invivo Biosystems, Enviral Tech and Oregon Health Care Association	Director since April 24, 2018	334,070 <sup>(2)</sup>	0.6%
Scott Secord <sup>(8)(12)</sup> Ontario, Canada <i>Director</i>	Executive Chairman of RISE since 2019, which creates premium health and wellness brands for the modern consumer. Managing Partner of Shore Capital Sports and Entertainment which provides services for emerging and established companies in the Sports & Entertainment Sectors.	Director since March 31, 2021	16,723	0.0%

Name, Province/State and Country of Residence and Position(s) with the Company	Principal Occupation(s) for the Last Five Years	Period(s) Served as a Director	Number of Common Shares Beneficially Owned or Controlled or Directed	Percentage of Common Shares Beneficially Owned or Controlled or Directed
Larry Martin <sup>(8)(10)(11)</sup> New York, United States <i>Director</i>	Patent attorney and consultant.	Director since January 26, 2019	Nil <sup>(5)</sup>	0.0%
Bob McKnight <sup>(8)(9)(10)(11)</sup> California, United States <i>Director</i>	Chairman and CEO of Boardriders, a leading action sports and lifestyle company that designs, produces and distributes branded apparel, footwear and accessories for board riders around the world.	Director since April 24, 2018	22,260 <sup>(1)</sup>	0.0%

**Notes:**

- (1) Mr. McKnight also holds 97,826 stock options exercisable at C\$4.83 per share, 54,347 stock options exercisable at C\$5.06 per share and 96,956 stock options exercisable at \$1.38 per share.
- (2) Mr. Miller also holds 97,826 stock options exercisable at C\$5.98 per share, 54,347 stock options exercisable at C\$5.06 per share and 217,391 stock options exercisable at C\$1.38 per share, 276,086 Common Share purchase warrants exercisable at C\$1.38 per share, and C\$132,000 convertible debentures to Common Shares at C\$1.38 per share, and the right to subscribe to 1,053,168 common shares at C\$1.38 per share supported by a loan from the Company.
- (3) Mr. Varghese also holds 152,173 stock options exercisable at C\$5.06 per share, 130,434 stock options exercisable at C\$1.38 per share, 65,217 Common Share purchase warrants exercisable at C\$1.38 per share, C\$10,000 of convertible debentures convertible to common shares at C\$1.38 per share, and the right to subscribe to 1,387,081 common shares at C\$1.38 per share supported by a loan from the Company.
- (5) Mr. Martin also holds 152,173 stock options exercisable at C\$2.65 per share and 96,956 stock options exercisable at \$1.38 per share.
- (6) Mr. Yapp also holds 73,913 stock options exercisable at C\$1.73 per share, 82,608 stock options exercisable at C\$6.67, 130,434 stock options exercisable at C\$1.38 per share, 173,913 common share purchase warrants exercisable at C\$1.38 per share, C\$7,000 of convertible debentures convertible to common shares at C\$1.38 per share, and the right to subscribe to 1,382,733 common shares at C\$1.38 per share supported by a loan from the Company.
- (7) Mr. Marchington also holds 173,912 stock options exercisable at C\$1.38 per share, 173,913 stock options exercisable at C\$1.50 per share, and 65,217 Common Share purchase warrants exercisable at C\$1.38 per share.
- (8) Member of the Audit Committee.
- (9) Member of the Nominating and Corporate Governance Committee.
- (10) Member of the Compensation Committee.
- (11) Member of the Disclosure Committee.
- (12) Mr. Secord also holds 130,434 stock options exercisable at C\$1.50 per share.

As of the date hereof, the directors and executive officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly, 1,875,577 Common Shares, representing 3.2% of the total issued and outstanding Common Shares.

The principal occupations, businesses or employments of each of the Company's directors and executive officers within the past five years are disclosed in the brief biographies set out below.

***Bob McKnight***

Mr. McKnight co-founded Quiksilver, Inc. in 1976 and has served as the company's President, CEO and Chairman of the board of directors from its inception until 2015. Under his watch, Quiksilver grew from a start-up to a worldwide Company with revenues of \$2.5 billion. Today, Quiksilver is a globally diversified, world leader in outdoor lifestyle apparel with their three main brands of Quiksilver, Roxy and DC. Quiksilver, Inc. has over 5,000 employees, operates in over 100 countries and has close to 700 retail stores in the world. Today, Mr. McKnight serves as a consultant and ambassador to the company and manages the Quiksilver Foundation.

***Scott Secord***

A lifelong entrepreneur, Mr. Secord has been a founder, executive, advisor and board member of multiple successful start-ups leading to various liquidity events. Scott's leadership as President/CEO of Pointstreak Sports Technologies from 2009 to 2015 resulted in a number of accolades including winning Deloitte's Technology Fast 50 and Fast 500 awards. He led the corporation's successful public spin-out of its gaming business (Gaming Nation), while also selling the core sports data/content business to Providence Equities and Blue Star Sports. In his



subsequent role as President/CEO of publicly listed Gaming Nation, he made several successful strategic acquisitions before selling the corporation to Orange Capital Partners in 2018. Today, Scott serves as Managing Partner of Shore Capital Sports & Entertainment, an advisory firm focused on the sports gaming, data and media verticals. He also continues to serve as a director on a number of public and private company boards.

***Rick Miller***

Mr. Miller is a seventh-generation Oregonian with a prominent local presence as an entrepreneur, highlighted by his co-founding of Rogue Venture Partners, a private equity firm that provides funding and mentorship to other entrepreneurs in Oregon. He was also the founder and serves as CEO of the Avamere Group, one of the Northwest's largest senior care and housing providers. Mr. Miller currently serves on the boards of Diabetomics, Invivo Biosystems, Enviral Tech, Oregon Healthcare Association and Chalice Brands, Ltd. Mr. Miller previously served as chairman of Portland State University Board of Trustees, Oregon Investment Council, Oregon Health Care Association, American Health Care Association and the Portland-based chapter of the Young Presidents Organization.

***Larry Martin***

Mr. Martin is a successful CEO and entrepreneur, with a unique background which includes over 39 years of domestic (i.e., United States) and international business experience in more than 11 different industries, including outdoor hospitality lifestyle, consumer branding, real estate and the medical industry. Mr. Martin also brings years of experience in FDA regulatory matters. Mr. Martin has served in various capacities, including CEO, COO, Board Member, General Counsel and Patent Counsel with a variety of companies he has been involved with, including Field & Stream Licenses Company, LLC (which he founded), Eveia Medical, Inc., TNI Biotech, Inc., eMAX Health Systems LLC, US Summit Company, and Neuromed, Inc. Mr. Martin presently serves as a member of the Board of Advisors for Aaron Capital and the ATT Project, Inc.

***John Varghese***

Mr. Varghese is currently Executive Chairman of the Company and President and CEO of a private software company in the Fintech space that operates globally. Mr. Varghese's professional experience ranges from private equity, venture capital and investment banking to senior management and board of director roles in various industries in both public (TSX and NASDAQ) and private companies. Mr. Varghese has a deep background in mergers and acquisition, investing, operations and the capital markets. Having held CEO, COO, SVP and CFO positions, his career has included senior management roles within multi-national corporations including Quarterhill Inc., CI Financial Corp., Royal Bank Capital Corporation, Midland Walwyn Capital Inc. (Merrill Lynch Canada), Dell Computer Corporation and Jim Pattison Industries Ltd. He has served on over 20 boards, acting as Chairman on 8 of those, as well as chairing multiple compensation committees and participating on numerous audit committees.

***Jeff Yapp***

Mr. Yapp is an accomplished corporate executive and entrepreneur who has built a successful career on his unique vision to see opportunity where it isn't obvious. His strength lies not only in his highly innovative ideas, but also in his ability to get things done regardless of obstacles. With an extensive retail, entertainment, and marketing background, he has been committed to bringing innovation and growth to the corporate environment including Microsoft, Kraft Foods, PepsiCo, Newscorp/20th Century Fox, and Viacom/MTV. He has applied his strategic marketing and consulting skills with various clients, including Microsoft, Vice Media, XBOX, and Windows. As Strategic Partner to Microsoft, Jeff is an integral driver of growth for Microsoft's online and retail operations, its fastest growing division. Jeff graduated with honors from the University of Michigan in Business Administration and with honors from JL Kellogg School of Management at Northwestern University.

***Andrew Marchington***

Mr. Marchington began his career in public accounting and has experience in start-ups, high-growth, and enterprise level organizations including five years of experience in the cannabis industry. Andrew has built a rich understanding of priorities and best practices in accounting, finance, and management, and prides himself on building high

performing, sustainable teams that meet big goals while maintaining balance in their lives. His career has included companies such as Deloitte, Moss Adams, Cambia Health Solutions, and C21 Investments. As Chief Financial Officer, Andrew provides leadership to the finance and accounting team overseeing the company's past and present financial situation as well as its capital structure and short and long term strategic financial objectives. Andrew is a licensed CPA in Oregon.

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

To the knowledge of the Company, no director or executive officer of the Company is, as at the date hereof, or has been, within the 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Company) that:

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

To the knowledge of the Company, other than Mr., Varghese and Mr. McKnight, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

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

On April 28, 2017, Mr. Varghese filed a commercial proposal under the Bankruptcy and Insolvency Act (Canada). On December 5, 2017, the Ontario Superior Court of Justice approved the proposal. Mr. Varghese fully completed his creditor proposal as of November 25, 2019.

Mr. McKnight was a CEO and a director of Quiksilver, Inc. until October 2014 and a director of Quiksilver, when on September 9, 2015, it and each of its ten wholly owned U.S. subsidiaries, filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware for relief under Chapter 11 of the United States Bankruptcy Code. On January 29, 2016, the Bankruptcy Court entered an order confirming a plan of reorganization, which was filed with the Bankruptcy Court on January 28, 2016. On February 11, 2016, the plan became effective pursuant to its terms and the debtors emerged from the Chapter 11 case.

To the knowledge of the Company, as at the date hereof, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

To the best knowledge of Chalice, and other than as disclosed herein, there are no known existing or potential material conflicts of interest between the Company or a subsidiary of the Company and a director, officer or promoter of the Company except that certain of the directors, officers and promoters of the Company serve as directors, officers and promoters of other companies and therefore it is possible that a conflict may arise between their duties as a director, officer or promoter of the Company and their duties as a director, officer and promoter of such other companies. See “*Risk Factors*”.

The directors, officers and promoters of the Company are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosure by directors of conflicts of interest and the Company will rely upon such laws in respect of any directors’ and officers’ conflict of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with applicable law and they will govern themselves in respect thereof to the best of their ability in accordance with the obligation imposed upon them by law.

### **PROMOTER**

There has been no person or company that may be considered a promoter of the Company within the two most recently completed financial years and through to the date of this AIF.

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

#### **Legal Proceedings**

Other than as described below, as of the date of this AIF, there are no legal proceedings material to the Company to which the Company is a party or of which any of their respective property is the subject matter.

#### *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 nor 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 pay any monetary consideration to the other. The case has now been dismissed with prejudice.

### **Regulatory Actions**

Other than as described below, as of the date of this AIF, none the Company or any of its subsidiaries has been subject to any penalties or sanctions imposed by any court or regulatory authority relating to securities legislation or by a securities regulatory authority, nor has any party entered into a settlement agreement with a securities regulatory authority, or been subject to any other penalties or sanctions imposed by a court or regulatory body or self-regulatory authority that are necessary to provide full, true and plain disclosure of all material facts relating to the Company’s securities or would be likely to be considered important to a reasonable investor making an investment decision.

### ***Internal Revenue Service***

The Internal Revenue Service ("IRS") audited the 2016 and 2017 federal income tax returns of the Company's wholly-owned subsidiary, Greenpoint Holdings Delaware, Inc. ("GPHD"). The IRS focused on two issues that needed to be resolved:

- 1) The first issue involved the reporting of royalty income on the Company's Canadian tax return instead of on the U.S. federal return of GPHD, which files a consolidated return for the Company's U.S. operations. The assets which were the subject of the royalty payments were owned by a U.S. subsidiary of the Company (GL Management, Inc., a Nevada corporation) and the entity using those assets and paying the royalty fees was also a U.S. entity (BMF Washington, LLC, an unrelated entity). The Company is in the process of filing amended returns in Canada and the U.S. to correct the mistake.
- 2) The second issue related to an IRS Form 8594 filing with respect to a series of 2017 business transactions. The Form 8594 listed the incorrect EIN of one of the parties to the transaction. Because a similar error had occurred with respect to a Form 8594 filed in a prior year, the IRS was proposing to assess a penalty under Internal Revenue Code Section 6271(e) for "intentional disregard" of an information reporting requirement. This penalty is the greater of \$500 or 10% of the aggregate amount of items required to be reported correctly, which amounted to a proposed penalty in excess of \$4.6 million. The Company maintains that the error was inadvertent and resulted from confusion among multiple business entities having similar names. The Company sent a response letter to the IRS in January 2020. The Company's position was that the facts and circumstances of the law: (1) did not support assessment of the intentional disregard penalty under Code Section 6721(e); and (2) supported application of the reasonable cause exception under Code Section 6724(a), such that no Code Section 6721 penalties should be assessed. This matter was resolved favourably and a payment of less than \$500 was made to the IRS.

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

Other than as disclosed below and elsewhere in this AIF no director, executive officer or shareholder that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the issued and outstanding Common Shares, or any of their respective associates or affiliates, has any material interest, direct or indirect, in any transaction within the three years before the date of this AIF which has materially affected or is reasonably expected to materially affect the Company or a subsidiary of the Company.

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 to 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 3<sup>rd</sup> quarter of 2021. The aforementioned common share agreements are subject to the share consolidation.

Refer to Note 17 of the Interim Condensed Consolidated Financial Statements.

## TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent of the Company is Odyssey Trust Company at its Toronto office located at 67 Yonge Street, Toronto ON M5E 1J8.

## MATERIAL CONTRACTS

The only material contracts entered into by the Company, other than in the ordinary course of business within the most recently completed financial year and through to the date of this AIF, or prior thereto and that are still in effect as of the date hereof, are set forth below.

- (a) The Debenture Indenture dated November 16, 2020 between the Company and Capital Transfer Agency, ULC, as amended.
- (b) Second Chalice Transition Agreement.
- (c) Stock Purchase Agreement dated April 8, 2021 with respect to the acquisition of 80% of Fifth and Root, a California Company.
- (d) Membership Purchase Agreement dated May 19, 2021 with respect to the acquisition of SMS Ventures, LLC.
- (e) Consulting Agreement dated October 11, 2019 between Greenpoint Oregon, Inc. and Tozmoz, LLC.
- (f) Asset Purchase Agreement dated September 16, 2021 between CF Bliss LLC and Cannabliss
- (g) Services agreements dated September 16, 2021 between Greenpoint Oregon Inc. and Cannabliss

The material contracts described above may be inspected without further charge at the offices of Cassels Brock & Blackwell LLP, located at 40 King Street West, Suite 2100, Toronto, Ontario M5H 3C2, during ordinary business hours.

## AUDIT COMMITTEE INFORMATION

The Audit Committee is responsible for monitoring the Company's systems and procedures for financial reporting and internal control, reviewing certain public disclosure documents, including the Company's annual audited financial statements and unaudited quarterly financial statements, and monitoring the performance and independence of the Company's external auditors. The Audit Committee is also responsible for reviewing with management the Company's risk management policies, the timeliness and accuracy of the Company's regulatory filings and all related party transactions as well as the development of policies and procedures related to such transactions

### **Audit Committee Charter**

The Audit Committee Charter sets out the Audit Committee's responsibilities and authority, procedures governing meetings, qualifications for membership and particulars governing the role of the Chair. A copy of the Audit Committee Charter is attached hereto as Schedule "A".

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

As of the date hereof, the Audit Committee of the Company is composed of the following three members: Scott Secord (Chair), Bob McKnight and Larry Martin. Each member of the Audit Committee is considered "independent" and "financially literate" pursuant to National Instrument 52-110 – *Audit Committees* ("NI 52-110").

### **Relevant Education and Experience**

Each of the Audit Committee members has an understanding of the accounting principles used to prepare the Company's financial statements, experience preparing, auditing, analyzing or evaluating comparable financial statements and experience as to the general application of relevant accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting.

### **Reliance on Certain Exemptions**

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

### **Exemption for Venture Issuers**

Pursuant to Section 6.1 of NI 52-110, the Company is exempt from the requirements of Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) of NI 52-110.

### **Audit Committee Oversight**

At no time since the Audit Committee was formed, has any recommendation of the Audit Committee to nominate or compensate an external auditor not been adopted by the Company on behalf of the Board.

### **Pre-Approvals Policies and Procedures**

Subject to the requirements of NI 52-110, the engagement of non-audit services is considered by the Board, and where applicable by the Audit Committee, on a case by case basis.

## **INTERESTS OF EXPERTS**

Dale Matheson Carr-Hilton Labonte LLP were the auditors of the Company in respect of the consolidated financial statements of the Company for the year ended December 31, 2020, and have confirmed that they were and are independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of British Columbia. Baker Tilly US LLP are the current auditors of the Company.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company may be found under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and under the Company's profile on the CSE's website at [www.cnsx.ca](http://www.cnsx.ca).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's management information circular dated March 31, 2021 prepared in connection with the Company's annual meeting of the Shareholders.

Additional financial information is provided in the Company's audited consolidated financial statements and management's discussion and analysis for the financial year ended December 31, 2020, each of which is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**SCHEDULE "A"**  
**AUDIT COMMITTEE CHARTER**

**PURPOSE**

1. The Audit Committee ("Committee") is a committee of the board of directors (the "Board") of Chalice Brands Ltd. (the "Corporation"). Its primary function shall be to assist the Board in fulfilling its oversight responsibilities with respect to:
  - (a) the financial reporting process and the quality, transparency and integrity of the Corporation's financial statements and other related public disclosures;
  - (b) the Corporation's internal controls over financial reporting;
  - (c) the Corporation's compliance with legal and regulatory requirements relevant to the financial statements and financial reporting;
  - (d) ensuring that there is an appropriate standard of corporate conduct for senior financial personnel and employees including, if necessary, adopting a corporate code of ethics;
  - (e) the external auditors' qualifications and independence; and
  - (f) the performance of the internal audit function and the external auditors.
2. The function of the Committee is oversight. The members of the Committee are not full-time employees of the Corporation. The Corporation's management is responsible for the preparation of the Corporation's financial statements in accordance with applicable accounting standards and applicable laws and regulations. The Corporation's external auditors are responsible for the audit or review, as applicable, of the Corporation's financial statements in accordance with applicable auditing standards and laws and regulations.

**COMPOSITION**

3. The Committee shall be appointed by the Board annually on the recommendation of the Corporate Governance Committee and shall be comprised of a minimum of three directors. If an appointment of members of the Committee is not made as prescribed, the members shall continue as such until their successors are appointed. The Board may remove a member of the Committee at any time in its sole discretion by resolution of the Board.
4. The majority of the members of the Committee shall be directors whom the Board has determined are independent and "financially literate", taking into account the applicable rules and regulations of securities regulatory authorities and/or stock exchanges.
5. The Chair of the Committee will be designated by the Board from among the members of the Board. Such Chair shall serve as a liaison between members and senior management. If for any reason a Chair of the Committee is not appointed by the full Board, members of the Committee may designate a Chair of the Committee by majority vote of the full membership of the Committee.

**MEETINGS**

6. The Committee shall have a minimum of four meetings per year, to coincide with the Corporation's financial reporting cycle. Additional meetings will be scheduled as considered necessary or appropriate, including considering specific matters at the request of the external auditors or the head of internal audit.
7. The time and place of the meetings of the Committee, the calling of meetings and the procedure in all things at such meetings shall be determined by the Chair of the Committee. A meeting of the Committee may be called by notice, which may be given by written notice, telephone, facsimile, email or other communication equipment, given at least 48 hours prior to the time of the meeting provided that no notice of a meeting will be



necessary if all of the members are present either in person or by means of conference telephone or if those absent waive notice or otherwise signify their consent to the holding of such meeting.

8. At least two members of the Committee will constitute a quorum at each meeting.
9. The Committee will hold an in camera session without any senior officers present at each meeting.
10. The Committee will keep minutes of its meetings, which shall be available for review by the Board.
11. The Committee may appoint any individual, who need not be a member, to act as the secretary at any meeting.
12. The Committee may invite such directors, senior officers and other employees of the Corporation and such other advisors and persons as is considered appropriate to attend any meeting of the Committee.
13. Any matter to be determined by the Committee will be decided by a majority of the votes cast at a meeting of the Committee called for such purpose. Each Member will have one vote and decisions of the Committee will be made by an affirmative vote of the majority. The Chair will not have a deciding or casting vote in the case of an equality of votes. Any action of the Committee may be taken by an instrument or instruments in writing signed by all of the members of the Committee (including in counterpart) and any such action will be as effective as if it had been decided by a majority of the votes cast at a meeting of the Committee called for such purpose.
14. The Committee will report its determinations and recommendations to the Board.

#### **RESOURCES AND AUTHORITY**

15. The Committee has the authority to:
  - (a) engage, at the expense of the Corporation, independent counsel, accounting and other experts or advisors as considered advisable in its sole discretion, at the expense of the Corporation, which shall provide adequate funding for such purposes;
  - (b) determine and pay the compensation for any independent counsel, accounting and other experts or advisors retained by the Committee;
  - (c) conduct any investigation in the Corporation's business or affairs that it considers appropriate; and
  - (d) request unrestricted access to the books and records of the Corporation, management, the external auditors and the head of internal audit, including private meetings, as it considers necessary or appropriate to discharge its duties and responsibilities.

#### **DUTIES AND RESPONSIBILITIES**

16. The responsibilities of a member of the Committee shall be in addition to such Member's duties as a member of the Board. The duties and responsibilities of the Committee shall be as follows:

##### **Financial Reporting and Disclosure**

- (a) The Committee has the duty to determine whether the Corporation's financial disclosures are complete, accurate, are in accordance with international financial reporting standards and fairly present the financial position and risks of the organization. The Committee should, where it deems appropriate, resolve disagreements, if any, between management and the external auditor, and review compliance with laws and regulations and the Corporation's own policies.
- (b) Review and discuss with management and the external auditor at the completion of the annual examination:
  - (i) the Corporation's audited financial statements and related notes;

- (ii) the external auditor's audit of the annual financial statements and their report thereon;
  - (iii) any significant changes required in the external auditor's audit plan;
  - (iv) any serious difficulties or disputes with management encountered during the course of the audit; and
  - (v) other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards.
- (c) Review and discuss with management and, where authorized by the Board, the external auditor at the completion of any review engagement or other examination of the Corporation's quarterly unaudited financial statements:
- (i) the Corporation's unaudited financial statements and related notes;
  - (ii) any significant changes required in the external auditor's audit plan resulting from the preparation of the unaudited financial statements;
  - (iii) any serious difficulties or disputes with management encountered during the course of the preparation of the unaudited financial statements; and
  - (iv) other matters related to the preparation of the unaudited financial statements, which are to be communicated to the Committee.
- (d) Approve unaudited financial statements and the notes thereto and the Corporation's management discussion and analysis with respect to such financial statements.
- (e) Review, discuss with management the annual reports, the quarterly reports, the related Management Discussion and Analysis, the annual information form, any prospectus and other disclosures and, if thought advisable, recommend the acceptance of such documents to the Board for approval.
- (f) Review disclosure respecting the activities of the Committee included in the Corporation's annual filings.
- (g) Review and discuss with management any guidance being provided to shareholders on the expected future results and financial performance of the Corporation and provide their recommendations on such documents to the Board.
- (h) Inquire of the auditors the quality and acceptability of the Corporation's accounting principles, including the clarity of financial disclosure and the degree of conservatism or aggressiveness of the accounting policies and estimates.
- (i) Meet independently with the external auditor and management in separate executive sessions, as necessary or appropriate.
- (j) Ensure that management has the proper systems in place so that the Corporation's financial statements, financial reports and other financial information satisfy legal and regulatory requirements. Based upon discussions with the external auditor and the financial statement review, if it deems appropriate, provide the Board with such recommendations and reports with respect to the financial disclosures of the Corporation.
- (k) Review and approve any significant amendments to the Corporation's Disclosure Policy.
- (l) Review and if appropriate, ratify the mandate of the Disclosure Committee.

## **External Auditor**

- (m) Retaining and terminating, and/or making recommendations to the Board and the shareholders with respect to the retention or termination of, an external auditing firm to conduct review engagements on a quarterly basis and an annual audit of the Corporation's financial statements.
- (n) Communicating to the external auditors that they are ultimately accountable to the Board and the Committee as representatives of the shareholders.
- (o) Obtaining and reviewing an annual report prepared by the external auditors describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
- (p) Evaluating the independence of the external auditor and any potential conflicts of interest and (to assess the auditors' independence) all relationships between the external auditors and the Corporation, including obtaining and reviewing an annual report prepared by the external auditors describing all relationships between the external auditors and the Corporation.
- (q) Approving, or recommending to the Board for approval, all audit engagement fees and terms, as well as all non-audit engagements of the external auditors prior to the commencement of the engagement.
- (r) Reviewing with the external auditors the plan and scope of the quarterly review and annual audit engagements.
- (s) Setting hiring policies with respect to the employment of current or former employees of the external auditors.

## **Internal Controls and Audit**

- (t) Reviewing and discussing with management, the external auditors and the head of internal audit the effectiveness of the Corporation's internal controls over financial reporting, including reviewing and discussing any significant deficiencies in the design or operation of internal controls, and any fraud, whether or not material, that involves management or other employees who have a significant role in the Corporation's internal controls over financial reporting.
- (u) Discussing the Corporation's process with respect to risk assessment (including fraud risk), risk management and the Corporation's major financial risks and financial reporting exposures, all as they relate to internal controls over financial reporting, and the steps management has taken to monitor and control such risks.
- (v) Reviewing and discussing with management the Corporation's Code of Business Conduct and Ethics and anti-fraud program and the actions taken to monitor and enforce compliance.
- (w) Establishing procedures for:
  - (i) the receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters, including reviewing and discussing Whistleblower Policy with management; and
  - (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting, internal controls or auditing matters.
- (x) Reviewing and discussing with management, the external auditors and the head of internal audit the responsibilities and effectiveness of the Corporation's internal audit function, including reviewing the internal audit mandate, independence, organizational structure, internal audit plans and adequacy of

resources, receiving periodic internal audit reports and meeting privately with the head of internal audit on a periodic basis.

- (y) Approving in advance the retention and dismissal of the head of internal audit.

**Other**

- (z) Reporting regularly to the Board.
- (aa) Reviewing and assessing its mandate and recommending any proposed changes to the Corporate Governance Committee of the Board on an annual basis.
- (bb) Evaluating the functioning of the Committee on an annual basis, including with reference to the discharge of its mandate, with the results to be reported to the Corporate Governance Committee, which shall report to the Board.
- (cc) Review periodically, together with the Corporate Governance Committee, the directors' and officers' liability insurance and indemnities of the Corporation and consider the adequacy of such coverage.

**ADOPTION**

This Charter was adopted by the Board on May 31, 2016.