**Vext Science, Inc.**

# MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED June 30, 2022

**Dated as of August 24, 2022**
(All amounts expressed in U.S. dollars, unless otherwise stated)

## CAUTIONARY NOTE REGARDING FORWARDING LOOKING STATEMENTS

This Management's Discussion and Analysis ("MD&A") contains certain statements that may constitute "forward-looking statements". Forward-looking statements include, but are not limited to, statements regarding future expansion, business goals, anticipated business developments and the timing thereof, regulatory compliance, sufficiency of working capital, business and financing plans, and other forward-looking statements including, but not limited to, information concerning intentions, plans and future actions of the Company.

In connection with the forward-looking information contained in this MD&A, the Company has made assumptions about the Company's ability to expand operations; profitably license its brands and operate in the future without any regulation or law imposed which would prevent the Company from operating its business. The Company has also assumed that no significant events occur outside of the Company's normal course of business.

The forward-looking information in this MD&A reflects the current expectations, assumptions and/or beliefs of the Company based on information currently available to the Company. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company's ability to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

## BACKGROUND

This MD&A has been prepared for the six months ended June 30, 2022, and it presents an analysis of the consolidated financial position of Vext Science, Inc. ("Vext" or the "Company") for the six months ended June 30, 2022. The following information should be read in conjunction with the unaudited condensed consolidated financial statements of the Company for the six months ended June 30, 2022, including the notes contained therein. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements of the Company include the financial statements of the Company and its direct subsidiaries, indirect subsidiaries that are not wholly owned by the Company and other entities consolidated other than on the basis of ownership as of June 30, 2022:

| Name | Jurisdiction | Ownership |
| --- | --- | --- |
| **Vext Science, Inc.** | **BC, Canada** | **100%** |
| **Subsidiaries:** | | |
| New Gen Holdings, Inc. | Wyoming, USA | 100% |
| Step 1 Consulting, LLC | Delaware, USA | 100% |
| New Gen Admin Services, LLC | Arizona, USA | 100% |
| New Gen Agricultural Services, LLC | Arizona, USA | 100% |
| New Gen Real Estate Services, LLC | Arizona, USA | 100% |
| Hydroponics Solutions, LLC | Arizona, USA | 100% |
| New Gen Phoenix (PHX), LLC | Arizona, USA | 100% |
| New Gen Eloy, LLC | Arizona, USA | 100% |
| New Gen Prescott (PV), LLC | Arizona, USA | 100% |
| Pure Touch Botanicals, LLC | Arizona, USA | 100% |
| Vapen, LLC | Arizona, USA | 100% |
| Vapen CBD, LLC | Arizona, USA | 100% |
| RDF Management, LLC | Arizona, USA | 100% |
| Firebrand, LLC | Arizona, USA | 100% |
| Herbal Wellness Center, LLC | Arizona, USA | 100% |
| Organica Patient Group, LLC | Arizona, USA | 100% |
| **Joint Ventures:** | | |
| Vapen Kentucky, LLC | Kentucky, USA | 50% |
| Vapen-Oklahoma, LLC | Oklahoma, USA | 25% |
| **Joint Operations:** | | |
| Happy Travels, LLC | California, USA | 50% |

Vext, through its wholly owned subsidiaries, currently operates in the U.S. as an agricultural technology, services and property management company utilizing a full vertical integration business model to oversee and execute all aspects of cultivation, extraction, manufacturing (THC and CBD cartridges, concentrates, edibles), retail dispensary, and wholesale distribution of high margin cannabis THC and hemp CBD products under the Vapen, Pure Touch and Herbal Wellness brands. Vext's expansion plans are to continue to invest in the Arizona operations, build out the Ohio cultivation facility and look for accretive opportunities.

Beginning in January of 2022, New Gen Holdings, Inc. acquired ownership for two licensed dispensaries operating in Arizona. Prior to the acquisition New Gen Holdings, Inc. provided services to the acquired dispensaries through management contracts and didn't consolidate their operations into Vext Science.

During the period covered by this MD&A, the Company continued its expansion strategy by continuing to fund joint venture agreements, and operating agreements with partners located in various states in the United States. As of the date of this MD&A, all five of these relationships have commenced commercial operations.

**MATERIAL EVENTS THAT OCCURRED DURING THE SIX MONTHS ENDED JUNE 30, 2022**

On January 1, 2022, the company acquired 100% of the shares for Organica Patient Group and Herbal Wellness Center.

Herbal Wellness Center, Inc. ("HWC"), was formed as an Arizona non-profit corporation on May 6, 2011 and converted to a for-profit corporation effective December 31, 2021 in accordance with the Arizona Restructuring Entity Act (A.R.S. § 29-2401) and the Responsible Adult Use of Marijuana Act (A.R.S. § 36-2858). HWC holds a medical marijuana dispensary certificate ("MMJ License") and recreational dispensary certificate in the state of Arizona, certain cannabis inventory / biological assets, and other working capital items. On January 1, 2022, upon conversion to a for-profit organization, HWC elected and approved the Company to serve as the initial shareholder holding 100% of the 100,000 outstanding shares of HWC.

Organica Patient Group, LLC ("Organica"), was formed as an Arizona non-profit corporation on May 6, 2011 and converted to a for-profit corporation effective December 31, 2021 in accordance with the Arizona Restructuring Entity Act (A.R.S. § 29-2401) and the Responsible Adult Use of Marijuana Act (A.R.S. § 36-2858). Organica holds a medical marijuana dispensary certificate ("MMJ License") and a recreational dispensary certificate in the state of Arizona, certain cannabis inventory / biological assets, and other working capital items. On January 1, 2022, upon conversion to a for-profit organization, Organica elected and approved the Company to serve as the initial shareholder holding 100% of the 100,000 outstanding shares of Organica.

## COMPANY OVERVIEW

The Company was incorporated in British Columbia, Canada on December 11, 2015, and its head office is located at 2250 – 1055 West Hastings Street, Vancouver, BC, Canada, V6E 2E9. On May 13, 2019, the Company commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "VEXT". On July 12, 2019, the Company commenced trading on the OTCQX Best Market under the ticker symbol (OTCQX: VEXTF).

On December 31, 2018, the Company closed a share exchange agreement where it acquired all the issued and outstanding shares of New Gen Holdings Inc. ("New Gen") in exchange for certain shares of the Company. New Gen incorporated in the State of Wyoming on July 8, 2014. New Gen has several wholly owned subsidiaries for the purpose of providing exclusive operating services to Herbal Wellness Center Inc. (HWC) and Organica Patient Group, LLC, both for-profit companies (effective January 1, 2022) that hold licenses to cultivate, extract, and dispense connoisseur-grade cannabis brands and cannabis-related products in Arizona. New Gen manages the activities of its operating subsidiaries and has done so since incorporation.

*Competitive strengths:*

The company operates two vertical cannabis operations in the Arizona market. The operations are part of the original licensing of dispensaries in Arizona. As such, each can service recreational and medical patient customers. The dispensaries are in Phoenix metro, in high traffic locations. The company also operates two existing cultivation facilities. The Phoenix operation is centrally located and has approximately 13,000 sq feet under canopy. The Prescott Valley facility has approximately 11,000 sq feet of canopy and approximately 5 acres of outdoor hoop houses. We are currently building an additional 17,000 sq feet of canopy at our Eloy facility.

The company operates a manufacturing facility. The facility supports the production of Vapen branded product as well as doing contract manufacturing services. All facilities are owned by the company and have invested in equipment to allow for efficient operations.

Current product produced in cultivation is sold through Company owned retail operations. The Company is not in the wholesale market for flower which allows for better margins. Manufactured products are sold in most of the dispensaries in Arizona and have a good market presence.

The Vext team has proven expertise in manufacturing, distribution and retail operations both in cannabis and other industries. We have in house R&D facilities that allow for consistent production and development of new products.
The company has invested in both equipment and facilities that allows us to have efficient production and a cost structure that allows the ability to maintain or grow margin.

*Growth Strategies and Strategic Priorities*:

The company continues to focus on growth within the Arizona market as well as investing in the vertical expansion within Ohio. We view both markets as excellent growth opportunities. We are focused on the expansion of markets that have limited licenses and allow us to operate vertically. The Company is continuing to seek out accretive acquisition opportunities.

Marketing and sales strategies are focused on attracting new and existing patients and customers to the dispensaries and the Vapen brands.

We will continue to work on the Joint Ventures to increase the brand awareness and identify opportunities for accretive growth.

## DESCRIPTION OF BUSINESS AND OVERALL PERFORMANCE

### Summary of Operations

For the three months ended June 30, 2022, the company had revenue of $8,765,798 with earnings before tax of $2,274,935. For the three months ended June 30, 2021, the company reported revenue of $9,375,774 and earnings before tax of $2,226,085.

The slight decrease in revenue is primarily due to the market reacting to the current economy. This is resulting in the demand being flat to declining. With the dispensaries operating as a for profit, the company is no longer operating under the management agreements. The dispensaries have also recognized that the direct sales of the operation were able to minimize the downturn, while still having an increase in earnings. When compared to the first quarter of 2021, revenue decreased by $(609,976) and earnings before tax increased by $48,850.

The increase in earnings is also attributable to the recognition of biological assets which resulted in an unrealized and realized gain of $1.5 million and $(1.1m) gain(loss) in the quarter, respectively.

As previously disclosed, our partner in Ohio has been awarded a Tier 1 cultivation license. The company will have an ownership in the cultivation when allowed to apply per Ohio statute. The arrangement is currently structured similar to the manufacturing operation.

Construction is continuing for the build out of cultivation capabilities to which the company is contributing. We are anticipating that the cultivation capability will be completed in the third quarter and will sell product in the Ohio market before year end.

Beyond Arizona operations, we view Ohio as one of the most attractive markets in the US.

### Joint Ventures and Joint Operations

None of the Company's joint ventures or joint operation are with related parties of the Company.

| STATE | FOOTPRINT | VAPEN PRODUCTS IN MARKET | PRODUCT TYPE | VEXT RELATIONSHIP | VEXT ECONOMIC INTEREST | CURRENT STATUS | EXPECTED SHORT TERM DEVELOPMENTS |
|---|---|---|---|---|---|---|---|
| Ohio | Cultivation, Processing and/or Wholesale | Yes | THC | Investment | NA | Vapen actively being sold at dispensaries in the market | Expanding SKUs and on-shelf presence |
| | Retail | NA | NA | LOI | NA | Current license holder received Certification of Operation and is fully functional | Vext and current license holder may apply for a change in ownership in Q3 2022 |
| Kentucky | Processing and/or Wholesale | Yes | CBD | Joint Venture | 50% | Operating and selling wholesale product | Working on securing base load supply contracts |
| Nevada | Processing and/or Wholesale | Yes | THC | Service Agreement | Licensing Fee | Vapen actively being sold at dispensaries in the market | Expanding on-shelf presence for Vapen brand |
| Oklahoma | Processing and/or Wholesale | Yes | THC | Joint Venture | 25% | Expanding SKUs and on-shelf presence | Expanding outdoor cultivation and increasing product quality |
| California | Processing and/or Wholesale | Yes | THC | Joint Operation | ~50% | Vapen actively being sold at dispensaries in the market | Expanding on-shelf presence for Vapen brand |

**Competitive Advantages:**

Brand Strength:
The Company has developed and supports the Vapen brand of products. The products are recognized for their high quality and competitive price structure. In Arizona and Ohio, the Vapen brand is available in the majority of dispensary locations.

Vapen branded products encompass edibles, concentrates and extracts. Vapen manufactures white label products in Arizona, Ohio, Oklahoma, and CA (San Diego) utilizing the Company's expertise and equipment.

Distribution Channels:
The Company has a well-developed distribution process at both retail and wholesale levels in Arizona. The Vapen brand is carried by most of the dispensaries in that market. Joint ventures as noted elsewhere in the MD&A will further expand the distribution capability of the Company as it moves into new markets. The cost of expanding distribution is shared with partners in each location.

Supply Chain:
The Company has a well-established supply chain. The Company uses multiple suppliers, both international and domestic. Suppliers are proven and reliable to meet the needs of the Company and keep cost structures competitive.

Financial Strength:
The Company has a proven track record of operating profitable cannabis companies, providing access to capital markets to support growth and expansion into different geographic markets.

Operations:

The Company has operations that are designed for efficient and quality-controlled production. We have completed and brought on line new manufacturing centers and cultivation to maximize throughput.

**FINANCING ACTIVITIES**

**HIGHLIGHTS FOR THE QUARTER ENDED JUNE 30, 2022**

The financial information reported herein reflects the operations of the Company as of June 30, 2022.

Herbal Wellness Center, Inc. ("HWC"), was formed as an Arizona non-profit corporation on May 6, 2011 and converted to a for-profit corporation effective January 1, 2022 in accordance with the Arizona Restructuring Entity Act (A.R.S. § 29-2401) and the Responsible Adult Use of Marijuana Act (A.R.S. § 36-2858). HWC holds a medical marijuana dispensary certificate ("MMJ License") in the state of Arizona, certain cannabis inventory / biological assets, and other working capital items. On January 1, 2022, upon conversion to a for-profit organization, HWC elected and approved the Company to serve as the initial shareholder holding 100% of the 100,000 outstanding shares of HWC.

Organica Patient Group, LLC ("Organica"), was formed as an Arizona non-profit corporation on May 6, 2011 and converted to a for-profit corporation effective January 1, 2022 in accordance with the Arizona Restructuring Entity Act (A.R.S. § 29-2401) and the Responsible Adult Use of Marijuana Act (A.R.S. § 36-2858). Organica holds a medical marijuana dispensary certificate ("MMJ License") in the state of Arizona, certain cannabis inventory / biological assets, and other working capital items. On January 1, 2022, upon conversion to a for-profit organization, Organica elected and approved the Company to serve as the initial shareholder holding 100% of the 100,000 outstanding shares of Organica. The transactions did not constitute a business combination since HWC and Organica did not meet the definition of a business under IFRS 3. As a result, the transactions have been accounted for as an asset acquisition with the Company being identified as the acquirer and HWC and Organica being the acquiree with the transaction being measured at the fair value.

The Company has reviewed its financial position and results of operations for the quarter ended June 30, 2022 and, the following determinations have been made by management:

a) There has been no inherent loss in the carrying value of the Company's assets since December 31, 2021. Management is of the opinion that both its current and long-term assets are fully collectable and or realizable at their recorded values.

b) The Company has no obligations to third parties which have or will require renegotiation at the date of this MD&A.

c) Although there can be no assurances given with respect to future unknown events, the Company's outlook for 2022 remains on target. Construction delays have slowed initiation of operations in certain markets. These delays are being reflected in internal planning tools for revenue expectations in 2022.

d) The Company has funded all its currently planned expansion programs in the markets referred to in this MD&A and accordingly the capital requirements to operate in these expanded markets has been met. Management is particularly conservative with the application of its current liquid assets and therefore the 2022 expansion plans as previously disclosed are not dependent upon additional outside capital. Continued growth will of course be determined by market forces outside the control of the Company.

## SELECTED QUARTERLY INFORMATION

The following financial data was derived from the Company's financial statements for each of the Company's most recent eight completed financial quarters:

## EBITDA and ADJUSTED EBITDA

The Company defines EBITDA and Adjusted EBITDA as per the table below. It should be noted that these performance measures are not defined under IFRS and may not be comparable to similar measures used by other entities. The Company believes that these measures are useful financial metrics as they assist in determining the ability to generate cash from operations. Investors should be cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net earnings or cash flows as determined under IFRS. The reconciling items between net earnings, EBITDA, and Adjusted EBITDA are as follows:

| | 2022 | | 2021 | | | | 2020 | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Revenue | $ 8,765,798 | $ 10,791,133 | $ 9,307,944 | $ 9,399,700 | $ 9,375,774 | $ 9,160,291 | $ 6,409,489 | $ 7,951,648 |
| Gross Profit before FV adjustments | 5,671,215 | 6,878,282 | 3,953,292 | 4,101,313 | 4,217,215 | 4,159,887 | 3,018,869 | 3,135,135 |
| Gross Profit Margin % before FV adjustments | 64.7% | 63.7% | 42.5% | 43.6% | 45.0% | 45.4% | 47.1% | 39.4% |
| Change in FV of Biological | (456,060) | (1,216,152) | — | — | — | — | — | — |
| Operating Expense | 3,672,301 | 4,184,267 | 2,059,278 | 2,452,651 | 1,885,446 | 2,313,613 | 1,525,718 | 1,544,145 |
| Other Income (Expenses) | 180,040 | 181,933 | 346,404 | 140,248 | 105,684 | 308,297 | (147,565) | 178,016 |
| Income Taxes | 322,725 | 1,475,051 | 462,523 | 538,308 | 433,636 | 398,900 | 514,000 | — |
| **Net Income after taxes** | $ 1,952,210 | $ 2,253,182 | $ 1,085,087 | $ 970,106 | $ 1,792,449 | $ 1,139,077 | $ 1,126,716 | $ 1,412,974 |
| Interest (Net) | 337,407 | 337,888 | 233,420 | 33,840 | (38,175) | (13,876) | (109,348) | 63,917 |
| Income Taxes | 322,725 | 1,475,051 | 462,523 | 538,308 | 433,636 | 398,900 | 514,000 | — |
| Depreciation & Amortization | 1,543,027 | 1,536,843 | 939,470 | 886,920 | 743,999 | 718,394 | 629,228 | 802,108 |
| **EBITDA** | $ 4,155,368 | $ 5,602,965 | $ 2,720,501 | $ 2,429,173 | $ 2,931,909 | $ 2,242,495 | $ 2,160,596 | $ 2,278,999 |
| Accretion | — | 12,372 | 170,546 | 785,192 | 208,946 | 58,399 | 36,589 | 37,542 |
| Share (Profit) / Loss on JVs | 190,783 | 182,145 | 130,860 | 2,602 | 102,938 | 303,157 | 127,627 | 76,747 |
| Share-based compensation | 104,762 | 85,696 | 132,822 | 171,479 | 220,410 | 424,953 | 243,554 | 86,790 |
| (Gain)/Loss on Asset Disposal | (10,164) | — | — | — | — | — | — | — |
| Office and General* | — | — | — | — | — | — | — | — |
| Gain on derecognition of ROU | — | — | — | — | (3,195) | — | — | — |
| (Gain)/Loss on Investment | — | — | 212,675 | 212,675 | — | — | — | — |
| Other Income | — | — | — | (75,000) | — | — | 77,987 | 77,987 |
| Foreign Exchange | (580) | (212) | 2,869 | (29) | 2,746 | 5,140 | (353,179) | (353,179) |
| Relative FV adjustment to inventory | 863,000 | (863,000) | — | — | — | — | — | — |
| Change in FV of Biological | (456,060) | (1,216,152) | | | | | | |
| **Adjusted EBITDA** | $ 4,847,110 | $ 3,803,814 | $ 3,370,272 | $ 3,526,093 | $ 3,463,755 | $ 3,034,144 | $ 2,293,174 | $ 2,293,174 |
| | 55.3% | 35.2% | 36.2% | 37.5% | 36.9% | 33.1% | 35.8% | 35.8% |
| | $8,650,924 | 2022 | $ 13,394,263 | 2021 | | | $ 6,699,794 | 2020 |

**For all quarters preceding 2022**:

Vext's revenue is primarily generated from its two owned dispensaries, HWC and Organica and their wholesale businesses. The Company's business outside of Arizona is conducted by way of either participating as a member of joint ventures or by way of investment in entities conducting business in selected markets. At the date of this MD&A, most revenues have been historically generated from the Company's Arizona operations.

**For the quarter ending June 30, 2022**:

Pursuant to the Company's Arizona dispensaries conversion to for-profit status, biological assets were recorded in the books of record at Fair Value Less Cost to Sell (FVLCS) which resulted in Unrealized and Realized Gain of $(1,541,307) and $1,085,247, respectively. Quarter over quarter gross profit increased by $5,106,378, which is a 122.8% increase.

**Financial Position as at June 30, 2022**

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | **29,353,856** | | 31,162,117 |
| **Non-current assets** | | **65,931,036** | | 52,541,991 |
| **Total Assets** | **$** | **95,284,892** | $ | 83,704,108 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | **19,525,301** | | 9,736,012 |
| **Long-term liabilities** | | **11,840,334** | | 14,574,533 |
| **Shareholders' equity** | | **63,919,257** | | 59,393,563 |
| **Total liabilities and shareholders' equity** | **$** | **95,284,893** | $ | 83,704,108 |

The following discussion of the Company's financial position is based on the Company's consolidated statement of financial position as at June 30, 2022.

Current Assets

As at June 30, 2022, the Company had total current assets of $29,353,856 (2021 – $31,162,117). The current assets were made up of the following: cash of $1,543,627 (2021 – $6,467,091), accounts receivable of 3,984,574 (2021 – $21,890,638), inventory of $9,498,209 (2021 – $214,859), biological assets $1,711,183, (2021 — $—), prepaid deposits and other receivables of $1,440,504 (2021 – $497,012), notes receivable – current of $7,994,047 (2021 – $1,082,873), deferred tax asset of $2,092,988 (2021 — $—), due from related parties – current of $316,251 (2021 – $316,251), and advances to joint ventures and operation of $772,473 (2021 – $693,393).

Non-current Assets

As at June 30, 2022, the Company's non-current assets were $65,931,036 (2021 – $52,541,991). Non-current assets are comprised of note receivable, non-current $0 (2021 - $13,272,694), investment in property, plant and equipment $33,811,909 (2021 – $28,817,265), investment in joint ventures $1,723,910 (2021 – $1,722,587), right-of-use asset $834,749 (2021 – $228,835), related party loans receivable of $1,328,383 (2021 – $1,328,383), intangible assets $27,770,333 (2021 – $6,710,475), and goodwill $461,752 (2021 – $461,752).

Current Liabilities

As at June 30, 2022, the Company's current liabilities were $19,525,301 (2021 – $9,736,012). Current liabilities include the following: accounts payable and accrued liabilities of $8,570,298 (2021 – $3,091,428), due to related party $225,000 (2021- $225,000), notes payable – current portion of of $5,247,171 (2021 – $769,117), notes payable – from RDF acquisition of $944,204 (2021 – $1,235,095), current portion of lease liability of $138,628 (2021 – $15,372), and loan payable of $4,400,000 (2021 – $4,400,000).

Non-current Liabilities

As at June 30, 2022, the Company's non-current liabilities were $11,840,334 (2021 – $14,574,533). Notes payable – non-current portion of $— (2021 – $4,725,484), notes payable – from RDF acquisition of $2,019,641 (2021 – $2,706,357), lease liability – non-current portion of $768,176 (2021 – $250,692), and deferred tax liabilities of $9,052,517 (2021 – $6,892,000).

Shareholders' Equity

As at June 30, 2022, the Company had shareholders' equity of $63,919,257 (2021 – $59,393,563).

Working Capital Position

As at June 30, 2022, the Company's working capital position was $9,828,555 (2021 $21,426,105). This decrease is due to the change to a for profit model and the elimination of the AR as  consideration.

**Financial Results of the Operation for the Three Months Ended June 30, 2022**

| | **For the Three Months Ended** | | $ | % |
|---|---|---|---|---|
| | **June 30, 2022** | June 30, 2021 | Change | Change |
| **REVENUES** | **8,765,798** | 9,375,774 | $ (609,976) | (6.5%) |
| **NET COST OF GOODS SOLD** | **2,638,522** | 5,158,558 | (2,520,036) | (48.9%) |
| **GROSS PROFIT** | **6,127,276** | 4,217,216 | 1,910,060 | 45.3% |
| **OPERATING EXPENSES** | **3,672,301** | 2,085,625 | 1,586,676 | 76.1% |
| Foreign exchange gain | **580** | (2,746) | 3,326 | NMF |
| Interest income | **—** | 196,983 | (196,983) | NMF |
| Share of profit (loss) of Joint Venture | **(190,783)** | (102,938) | (87,845) | 85.3% |
| **Net income before taxes** | **2,274,935** | 2,226,085 | 48,850 | 2.2% |
| Income tax expense | **(322,725)** | (433,636) | 110,911 | (25.6%) |
| **Net income after taxes** | **1,952,210** | 1,792,449 | 159,761 | 8.9% |
| Unrealized gain on foreign exchange translation | — | 82,417 | (82,417) | NMF |
| **Total comprehensive income** | **$ 1,952,210** | $ 1,874,866 | 77,344 | 4.1% |

**Sales:**
The following table is a comparison of the category breakdown for the three months ending June 30, 2022 compared to June 30, 2021.

**Sales:**

| **Source** | **June 2022** | | **Source** | **June 2021** |
|---|---|---|---|---|
| Dispensaries | | | Management Fees | |
| JV Partners and Other | $ 8,606,639 | | Professional Services | $ 2,100,000 |
| | $ 159,159 | | Product Sales | $ 2,649,714 |
| | $8,765,798 | | Equipment Sales | $ 3,254,852 |
| | | | Property Leasing | $ 1,260,425 |
| | | | | $ 110,783 |
| | | | | $9,375,774 |

Sales decreased by ($609,976) which is a 6.5% decrease comparing 2nd[t] quarter 2022 vs 2nd quarter 2021. Decreased sales are primarily due to the market reacting to the current economy. This is resulting in the consumers are being challenged with inflation and have less disposable income.

**Cost of Goods Sold:**

The following table shows the comparison by category breakdown for three months ending June 30, 2022 compared to June 30, 2021.

**Cost of Good Sold**

| | | June 2022 | | | June 2021 | |
|---|---|---|---|---|---|---|
| Cost of goods sold | $ | (207,699) | Cost of goods sold | $ | 2,216,540 | |
| Wages and benefits | $ | 1,557,256 | Wages and benefits | $ | 2,447,775 | |
| Amortization | $ | 497,659 | Amortization | $ | 15,210 | |
| General & Administrative | $ | 1,247,366 | General & Administrative | $ | 479,033 | |
| Subtotal cost of goods sold | $ | 3,094,582 | Subtotal cost of goods sold | $ | 5,158,558 | |
| Gross profit | $ | 5,671,215 | Gross profit | $ | 4,217,215 | |
| With the effect of biological inventory gross profit changes: | $ | 6,127,276 | With the effect of biological inventory gross profit changes: | $ | 4,217,215 | No Change |

Pursuant to the Company's dispensaries conversion to for-profit status, biological assets were recorded in the books of record at Fair Value Less Cost to Sell (FVLCS) which resulted in Unrealized and Realized Gain of $(1,541,307) and $1,085,247 realized loss, respectively.

Gross profit increased from $4,217,215 for three months ending June 30, 2021 to $5,671,215 for the same period in 2022 due to the change into for-profit reporting. The Company increased its cultivation capacity and as such required purchasing less product in the wholesale market to support dispensary operations. This resulted in higher profit margin recognition. The Company's improvements in operating efficiency and contract manufacturing also has resulted in higher margins.

Operating expenses for the three months ended June 30, 2022 were $3,672,301 compared to $2,085,625 for the comparative period, an increase of $1,586,676 or 76.0%.  The largest drivers were an in depreciation and amortization due to the acquisition in 2022.

## CASH FROM ACTIVITIES

The following table summarizes the sources and uses of cash for the s months ended June 30, 2022 and 2021:

| | | June 30, 2022 | | June 30, 2021 |
|---|---|---|---|---|
| Cash provided by operating activities | | **4,009,620** | | 4,541,075 |
| Net cash provided by (used in) investing activities | $ | **(7,644,942)** | | (18,889,069) |
| Net cash provided (used in) by financing activities | $ | **(1,288,144)** | | 20,749,436 |
| Net (decrease) in cash | $ | **(4,923,466)** | $ | 6,401,443 |

**Operating Activities**

During the three months ended June 30, 2022, operating activities contributed $4,009,620 of cash compared to 4,541,075 in the comparative period, a ($531,455) decrease. Biological asset recording and reduction in sales revenue from the current economic condition are the primary drivers for the change.

**Investing Activities**

During the three months ended June 30, 2022, cash flows used by investing activities was $(7,644,942) compared to $(18,889,069) for the comparative period in 2020, a decrease of $(11,244,127). The decrease is driven by a reduction in capital outlay for the cultivation and dispensary facility purchases purchases and recognition of current economic conditions.

**Financing Activities**

During the year ended June 30, 2022, cash flows provided by financing activities was $(1,288,144) compared to $20,749,436 for the comparative period in 2021, representing an decrease of $(22,037,580). This decrease was driven mainly by the prospectus offering in 2021 to raise capital.

## LIQUIDITY AND CAPITAL RESOURCES

These consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern which assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The continuing operations of the Company are dependent upon the Company's ability to continue to earn adequate revenues from operations and to raise adequate financing. The Company intends to finance its future requirements through continued operations.

As at June 30, 2022, the Company had working capital of $9,828,555 (2021 - 21,426,105) and retained earnings of $26,608,394 (2021 - $22,403,001). Management has assessed that this working capital is sufficient for the Company to continue as a going concern beyond one year.

The $(11,597,550) decline in Working Capital relates to New Gen Holdings, Inc. January 1, 2022 acquired ownership of two managed, licensed dispensaries operating in Arizona. The acquisition transactions have been accounted for as an asset acquisition with the Company being identified as the acquirer and HWC and Organica being the acquiree with the transaction being measured at the fair value. The accounting effect of the acquisition saw that the Company's exchange of current assets (primarily consisting of Accounts Receivable) for non-current assets (primarily Intangible Assets) resulted in the reduction of comparative Working Capital.

## RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the consolidated financial statements not disclosed elsewhere in these financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers, including the Company's Executive Chairman, Chief Executive Officer, Chief Operating Officer, President, Chief Financial Officer, and Corporate Secretary.

Remuneration attributed to key management personnel for the year ended June 30, 2022 and December 31, 2021 is summarized as follows:

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Share-based compensation | **$** | **27,846** | $ | 146,521 |
| Salaries and wages included in cost of good sold | | **183,681** | | 1,611,412 |
| Salaries, wages and commissions included in operating expenses | | **249,333** | | 84,812 |
| Consulting fees included in operating expenses: | | **85,311** | | 122,018 |
| | **$** | **546,171** | $ | 1,964,763 |

Other related parties

Other related parties include close family members of the Company's Executive Chairman, President, Corporate Secretary and Director and a company that is controlled by a Director.

Remuneration attributed to other related parties for the year ended June 30, 2022 and December 31, 2021 is summarized as follows:

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Consulting fees included in operating expenses | **$** | **75,780** | $ | 37,936 |
| | **$** | **75,780** | $ | 37,936 |

Balances with related parties:

**Due from related parties:**

The current portion of balances due from related parties is as follows:

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Non-interest bearing, due on December 31, 2022 from Jason Nguyen, Executive Chairman | **$** | **316,251** | $ | 316,251 |
| | **$** | **316,251** | $ | 316,251 |

The non-current portion of balances due from related parties is as follows:

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Non-interest bearing, due on December 31, 2023 from Jason Nguyen, Executive Chairman | **$** | **1,328,383** | $ | 1,328,383 |
| | **$** | **1,328,383** | $ | 1,328,383 |

**RELATED PARTY TRANSACTIONS (*CONTINUED…*)**

**Due to related parties:**

| | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Payables and Accrued Liabilities | | |
| Jason Nguyen, Executive Chairman (Due to related party) | **$ 225,000** | $ 225,000 |
| Jason Nguyen, Executive Chairman | **235,000** | 235,000 |
| Denise Lok, Former CFO | **—** | 285 |
| David Eaton, Director | **2,000** | 9,466 |
| Mark Opzoomer, Director | **16,665** | — |
| Eric Offenberger, CEO, COO, and Director | **87,885** | 90,000 |
| Long Term Loan Payable | | |
| Jason Nguyen, Executive Chairman | **—** | 64,763 |
| | **$ 566,550** | $ 624,514 |

**OUTSTANDING SHARE DATA**

The following share capital data is current as at the date of this MD&A:

| Number Outstanding | | |
|---|---|---|
| Subordinate voting shares | | 71,155,167 |
| Multiple voting shares* | | 672,747 |
| RSUs | | 491,025 |
| Stock options | | 3,381,334 |
| Warrants | | 33,172,428 |
| Special advisory warrants | $ | 1,000,000 |

*One multiple voting share can be converted into 100 subordinate voting shares.

**PROPOSED TRANSACTIONS**

Other than disclosed in this MD&A, the Company does not have any other proposed transactions at this time.

## CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

There were no changes in accounting policies nor were there any adoptions of any new policies for the six months and year to date ended June 30, 2022 as well as years ended December 31, 2021 and 2020.

## RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair value of the Company's accounts receivable, current notes receivable, advances to joint operation, deposits and other receivables, payables, accrued liabilities, approximate their carrying value , due to their short-term nature. The fair value of other financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk, interest rate risk, price risk, and currency risk.

### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to minimal credit risk on its receivables. As at June 30, 2022, $3,984,574 was due to the Company from less than 100 customers. The company has no investments in asset-backed commercial securities.

The Company records an allowance for doubtful accounts related to accounts receivable that are considered to be non-collectible. The allowance is based on the Company's knowledge of the financial condition of its customers, current business environment, customer and industry concentrations, and historical experience. To reduce credit risk, cash is only held at major financial institutions.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined in Note 21. As at June 30, 2022, the Company had cash, accounts receivable and short-term notes receivable of $13,522,247 to settle its current liabilities of $19,525,301. Management believes the Company has sufficient funds to support ongoing operating expenditures and meet its liabilities as they fall due.

### Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices, and foreign exchange rates.

a) Interest rate risk

   Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

   The Company does not hold any financial instruments with variable interest rates, and as a result, is subject to insignificant interest rate risk.

b) Price risk

   The Company is not exposed to significant price risk as it does not hold investments in publicly traded securities.

c) Currency risk

   The Company's expenditures are predominantly in U.S. dollars, and any future equity raised is expected to be predominantly in Canadian dollars.

## OFF-BALANCE SHEET TRANSACTIONS

The Company has not entered into any significant off-balance sheet arrangements or commitments.

## SUBSEQUENT EVENTS

- On July 6th, BF Borgers CPA PC was appointed as the audit firm for the Company. There were no reservations in the Former Auditor's audit reports for any financial period while the Former Auditor was the Company's auditor. There were no "reportable events".

- On July 8th, the Company announced entering two term loans with a California based lender for a total of $22.2 million credit facility. The first, is a $17.185 million 20-year first lien secured term loan bearing an interest of WSJ Prime + 2.75% with a 6.25% floor. The second, is a $5 million five-year second lien secured term loan, bearing interest at WSJ Prime + 2.75%, with a floor price of 6.25%.Proceeds are being used to refinance current secured debt, and working capital for potential acquisitions, capital expenditures, general and administrative expenses.

- On August 18, 2022, the Company issued 300,000 common shares to a shareholder in replacement of 300,000 common shares (the "Original Shares") that are subject to special administration proceedings with respect to the financial services firm holding the Original Shares. As of the date hereof, the Original Shares cannot be traded and will be returned to treasury for cancellation if and when they become tradable.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to decide of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

## RISK AND UNCERTAINTIES

### Uninsured or Uninsurable Risk

The Company may become subject to liability for risks against which it cannot insure or against which it may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on its financial position and operations.

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

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) dated February 8, 2018 – Issuers with U.S. Marijuana-Related Activities ("CSA Notice 51-352"), below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved. In accordance with CSA Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation.

**Legal and Regulatory Matters**

*United States Federal Overview*

In the United States, thirty-three (37) states, Washington D.C. and Puerto Rico have legalized medical marijuana, and sixteen (19) states and Washington D.C. have legalized "adult use" or "recreational" marijuana. At the federal level, however, cannabis currently remains a Schedule I drug under the CSA. 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. 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 federally illegal, the U.S. federal government's approach to enforcement of such laws has at least until recently trended toward non-enforcement. On August 29, 2013, the DOJ issued a memorandum known as the "Cole Memorandum" to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly regulated medical or recreational cannabis programs. While not legally binding, and merely prosecutorial guidance, the Cole Memorandum laid a framework for managing the tension between state and federal laws concerning state regulated marijuana businesses. However, on January 4, 2018, the Cole Memorandum was revoked by Attorney General Jeff Sessions, a long-time opponent of state- regulated medical and recreational cannabis. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority. In addition to his revocation of the Cole Memorandum, Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum". The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in doing so: the Cole Memorandum, according to the Sessions Memorandum, was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community". While the Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance, and reiterates the statutory view that cannabis is a "dangerous drug and that marijuana activity is a serious crime", it does not otherwise indicate that the prosecution of marijuana-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys in deciding whether or not to prosecute marijuana-related offenses.

*Arizona Overview:*

Arizona has authorized the cultivation, extraction and dispensing of medical marijuana products by licensed dispensaries located throughout the State. There are 169 licenses in the state which cover all categories of production and sale of cannabis and cannabis related products. In 2010, Arizona became the 14th state to legalize medicinal cannabis for adults over 21 under Proposition 205: the Arizona Medical Marijuana Act (AMMA). On November 20, 2020, Arizona passed Proposition 207 (Responsible Adult Use of Marijuana Act) which legalized recreational marijuana use for adults. Arizona is one of the 38 states to have some form of medical marijuana law in place; while another 18 states have legalized Marijuana for adult recreational use.. The AMMA is regularly used as an example for other states as an effective way to regulate a legal cannabis industry. In Arizona, the dispensaries can now operate as for-profit entities and engage with management companies to provide real estate rental, administrative, general management and advisory services, financing and logistics to medical marijuana businesses (the dispensaries) licensed under the provisions of the Arizona Medical Marijuana Act, A.R.S. Title 36, Section 28.1 (the "AMMA") and to provide material support.

*Medical Use*

Arizona Medical Marijuana cardholders are entitled to purchase not more than 2.5 ounces of product every two weeks. Purchases are tracked by cardholder and all dispensaries are required to report cardholder sales to the state to ensure that cardholders do not exceed their allotted purchase amount. New Gen and its subsidiaries are in compliance with Arizona's medical marijuana regulatory requirements and programs where applicable.

*Adult Use*

On November 3, 2020, Arizona voters passed Proposition 207, the "Smart and Safe Act", allowing adults to possess up to 1 ounce (28 grams) of marijuana (with no more than 5 grams being marijuana concentrate). Possession and cultivation of cannabis for adult use became legal on November 30, 2020. State-licensed sales of adult use cannabis began January 22, 2021. New Gen and its subsidiaries are in compliance with Arizona's adult use marijuana regulatory requirements and programs where applicable.

***Regulatory Risks***

The U.S. cannabis industry is highly regulated, highly competitive and evolving rapidly. As such, new risks may emerge, and management may not be able to predict all such risks or be able to predict how such risks may impact on actual results.

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

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

The Company expects to derive most of its revenues from the U.S. cannabis industry, which industry is illegal under U.S. federal law (other than its business related to high CBD/low THC products, known as "hemp"). As a result of the conflicting views between state legislatures and the federal government regarding cannabis, cannabis businesses in the U.S. are subject to inconsistent legislation and regulation. The Company is expected to remain focused in those U.S. states that have legalized the medical and/or adult-use of cannabis. Almost half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis without limits on THC, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC. However, the U.S. federal government has not enacted similar legislation and the cultivation, sale and use of cannabis remains illegal under federal law pursuant to the CSA. The federal government of the U.S. has specifically reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use use marijuana even if state law sanctioned such sale and disbursement. It is presently unclear whether the U.S. federal government intends to enforce federal laws relating to cannabis where the conduct at issue is legal under applicable state law. This risk was further heightened by the revocation of the Cole Memorandum in January 2018.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the U.S. federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, then the Company's business would be materially and adversely affected. U.S. 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.

*Nature of the Company's Involvement in the U.S. Cannabis Industry*

Currently, the Company is engaged in the branding and procurement for companies that manufacture and distribute cannabis in the medical and adult-use cannabis marketplace. As at December 31, 2021, the Company's assets and revenues are primarily attributable to the medical marijuana use in the State of Arizona.

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

The Company's involvement in the U.S. cannabis industry will be (i) only in those states that have enacted laws legalizing cannabis; and (ii) only in those states where the Company can comply with state (and local) laws and regulations and has the licenses, permits or authorizations to properly carry on each element of its business.

The Company will continue to monitor, evaluate and re-assess the regulatory framework in each state in which it may hold license, and the federal laws applicable thereto, on an ongoing basis; and will update its continuous disclosure regarding government policy changes or new or amended guidance, laws or regulations regarding cannabis in the U.S.

*Heightened Scrutiny*

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

*Change in Laws, Regulations and Guidelines*

The Company's business operations will directly and indirectly be affected by a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis, but also including laws and regulations relating to consumable products health and safety, the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations, which could require participants to incur substantial costs associated with compliance or alter certain aspects of its business plans. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plans and result in a material adverse effect on certain aspects of its operations.

*Unfavorable Publicity or Consumer Perception*

The legal cannabis industry in the U.S. is at an early stage of its development. Cannabis has been, and will continue to be, a controlled substance for the foreseeable future. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory opinion and support for medical and adult-use cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). The Company's ability to gain and increase market acceptance of its business activities may require substantial expenditures on proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Public investor relations, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful, and their failure may have an adverse effect on the Company.

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

*Other Regulatory Risks*

The activities and products of the Company are subject to regulation by governmental authorities, including, the U.S. Food and Drug Administration, and others. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

*Reliance on Management*

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

*Additional Financing*

In order to execute the anticipated growth strategy, the Company may require some additional equity and/or debt financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of subordinated voting shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

*Cannabis Industries are Highly Competitive*

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business.

*Operating Risk and Insurance Coverage*

The Company carries insurance to protect its assets, operations and employees. While the Company believes insurance coverage can adequately address all material risks to which it may be exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

*Key Personnel Risk*

The Company's success will depend on its directors and officers to develop the business and manage operations, and on its ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on the business. Competition for qualified technical, sales and marketing staff, as well as for officers and directors, can be intense and no assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact operations.

*Global Economy Risk*

The ongoing economic slowdown and downturn of global capital markets has generally made the raising of capital by equity or debt financing more difficult. The Company will be dependent upon the capital markets to raise additional financing in the future, while it establishes a client base for its product. Access to financing has been negatively impacted by the ongoing global economic downturn. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Company and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on its operations and, if applicable, the trading price of its subordinated voting shares on any stock exchange.

*Dividend Risk*

The Company has not paid dividends in the past and does not anticipate paying dividends in the near future. The Company expects to retain its earnings to finance further growth and, when appropriate, retire debt.

*Securities and Dilution*

There is no assurance that sources of financing will be available on acceptable terms, if at all. If the Company seeks additional equity financing, the issuance of additional shares will dilute the interests of their current shareholders. Failure to obtain such additional financings could result in delay or indefinite postponement of the Company's strategic goals.

*Future Capital Requirements*

The Company's future capital requirements will depend on many factors, including inorganic growth initiatives, securing new contracts, the rate of expansion and the status of competitive products. Depending on these factors, the Company may require additional financing which may or may not be available on acceptable terms. If additional funds are raised by issuing equity securities, dilution to the existing shareholders may result. If adequate funds are not available, the Company may not be able to achieve its growth objectives and operational targets, which could have a material adverse effect on the Company's business.

*Novel Corona Virus Known as "COVID-19"*

The Company may be impacted by business interruptions resulting from pandemics and public health emergencies, including those related to COVID-19. An outbreak of infectious disease, a pandemic, or a similar public health threat, such as the recent outbreak of COVID-19, or a fear of any of the foregoing, could adversely impact the Company by causing operating, manufacturing, supply chain, and project development delays and disruptions, labor shortages, travel, and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). It is unknown whether and how the Company may be affected if such a pandemic persists for an extended period of time, including as a result of the waiver of regulatory requirements or the implementation of emergency regulations to which the Company is subject. Although the Company has been deemed essential and/or has been permitted to continue operating its facilities in the states in which it operates during the pendency of the COVID-19 pandemic, there is no assurance that the Company's operations will continue to be deemed essential and/or will continue to be permitted to operate. The Company may incur expenses or delays relating to such events outside of its control, which the Company cannot estimate the length and severity of these developments or quantify the impact this pandemic may have on the financial results and condition of the Company in future periods.

## OTHER INFORMATION

Additional information on the Company is available on SEDAR at www.sedar.com.