



**Vext Science, Inc.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD ENDED  
June 30, 2024**

Dated as of August 19, 2024

(All amounts expressed in U.S. dollars, unless otherwise stated)

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# PREFACE

## 1.1 Definitions

In this document, the terms “we”, “us”, “our”, “the Company”, “Vext Science”, and “Vext” refer to Vext Science, Inc. and its consolidated subsidiaries.

## 1.2 Cautionary Note Regarding Forward 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, market trends, receipt of regulatory approvals, 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.

## 1.3 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 the 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.

## 1.4 Review and Approval by the Board of Directors

The board of directors of the Company approved the contents of this MD&A on August 19, 2024.

## 1.5 Quarterly Comparisons in the MD&A

Unless otherwise indicated, all comparisons of results for Q2 2024 (three months ended June 30, 2024) are compared against results for Q2 2023 (three months ended June 30, 2023).

## 1.6 MD&A Background

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – *Continuous Disclosure Obligations* of the Canadian Securities Administrators (the "CSA") and

Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana Related Activities* (“Staff Notice 51-352”).

This MD&A has been prepared for the quarter ended June 30, 2024, and it presents an analysis of the consolidated financial position of Vext for the quarter ended June 30, 2024. The following information should be read in conjunction with the condensed consolidated interim financial statements of the Company for the period ended June 30, 2024, including the notes contained therein.

### **1.7 Currency and Exchange Rates**

All references to dollars (\$) in this MD&A are expressed in United States dollars, unless otherwise indicated.

### **1.8 Use of Market and Industry Data**

Unless otherwise indicated, information contained in this MD&A concerning the industry and markets in which the Company operates, including its general expectations and market position, market opportunity and market share is based on information from independent industry organizations, and other third-party resources (including industry publications, surveys and forecasts), and management estimates.

The management estimates in this MD&A are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from the Company’s internal research, and are based on assumptions made by the Company based on such data and its knowledge of such industry and markets, which the Company believes to be reasonable. The Company’s internal research has not been verified by any independent source, and it has not independently verified any third-party information. While the Company is not aware of any misstatement regarding any industry or market data included in this MD&A, such information is inherently imprecise. In addition, projections, assumptions and estimates of the Company’s future performance and the future performance of the industry in which the Company operates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the “Key Risks, Risk Management and Financial Instruments”.

### **1.9 Accounting Framework**

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim financial statements 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, 2024. Refer to Section 2.2 in this MD&A for details around the Company’s subsidiaries.

### **1.10 Accounting Estimates and Assumptions**

In preparing these condensed consolidated interim financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those described in the Company’s annual consolidated financial statements for the year ended December 31, 2023.

# COMPANY AND INDUSTRY OVERVIEW

## 2.1 About Vext

Vext Science, Inc. (CSE: VEXT; OTCQX: VEXTF) is a prominent U.S.-based player in the cannabis industry, boasting a comprehensive expertise ranging from cultivation to retail operations, primarily concentrated in Arizona and Ohio.

Headquartered in Arizona, Vext owns and manages cutting-edge cultivation facilities, fully equipped manufacturing units, and dispensaries across both Arizona and Ohio. The Company is renowned for its flagship brand, Vapen™, producing THC concentrates, edibles, and distillate cartridges in Arizona. These premium products, crafted from Vext's own top-tier flower, are not only distributed within Arizona and Ohio but also through strategic partnerships in other states.

Operated through its wholly owned subsidiaries, Vext functions in the U.S. as an agricultural technology, services, and property management enterprise. Employing a full vertical integration model, it oversees all facets of cultivation, extraction, manufacturing (including THC and CBD cartridges, concentrates, and edibles), retail dispensary operations, and wholesale distribution of high-margin cannabis THC and hemp CBD products. Notable licensed cannabis brands under Vext's umbrella include Vapen, Pure Touch, Appalachian Pharm, Herbal Wellness, Revibe, and others.

Established in British Columbia, Canada, on December 11, 2015, Vext commenced trading on the Canadian Securities Exchange ("CSE") under the symbol "VEXT" on May 13, 2019. Subsequently, on July 12, 2019, it also began trading on the OTCQX Best Market under the ticker symbol "VEXTF".

On December 31, 2018, Vext finalized a share exchange agreement, acquiring all outstanding shares of New Gen Holdings, Inc. ("New Gen") in exchange for certain shares of the Company. New Gen, incorporated in Wyoming on July 8, 2014, oversees several wholly owned subsidiaries, providing exclusive operating services to for-profit entities Herbal Wellness Center Inc. ("HWC") and Organica Patient Group, LLC ("Organica"). Both companies, holding licenses for cultivating, extracting, and dispensing premium cannabis brands and products in Arizona, have been under New Gen's management since inception.

Arizona, ranked as the fourteenth most populous state in the USA, has witnessed a significant growth in its population. The state has implemented legal cannabis programs, including the legalization of medical marijuana in 2010 under Proposition 203, with the first dispensaries operating under a compassionate care model in 2012. Furthermore, adult-use marijuana was legalized in 2020 through Proposition 207 (the *Smart and Safe Act*), with legal sales commencing in January 2021. Notably, both of Vext's Arizona dispensaries are situated in Phoenix, the fifth largest city in the United States.

As of January 1, 2022, as a result of the passage of Arizona's adult-use marijuana program, Vext transitioned from a not-for-profit operating and accounting framework to a for-profit framework in the State of Arizona, concurrently with Vext's acquisitions (collectively, the "Acquisitions") of HWC and Organica.

Prior to the Acquisitions, Vext operated (but did not control) two dispensaries owned by HWC and Organica pursuant to a management services agreement between subsidiaries of Vext and each of HWC and Organica (together, the "Management Services Agreements"), whereby it provided exclusive management, administration and operation services to HWC and Organica. Prior to the Acquisitions, substantially all of the Company's revenue in the State of Arizona was derived from managements fees, professional fees, equipment and property leasing payable pursuant to the Management Services Agreements and the Company was dependent on sales from HWC and Organica and had accumulated significant receivables from HWC and Organics (\$29,024,302 as at January 1, 2022) which were classified as current assets and represented the Company's right to receive cash.

On January 1, 2022, concurrent with the Acquisitions, Vext restructured its operations in the State of Arizona from management of the dispensaries and cultivation centers to ownership and control. Subsequent to the Acquisitions, revenue represented actual sales from the dispensaries owned by HWC and Organica as opposed to management fees, professional fees, equipment and property leasing. Vext's characterization, classification, and presentation of operating expenses changed to reflect the dispensary acquisitions. Subsequent to the Acquisitions, the Company was no longer dependent on HWC and Organica as customers. In connection with the Acquisitions, the receivables payable by HWC and Organica to the Company pursuant to the Management Services Agreements were recharacterized as intercompany balances.

On January 2, 2023, Vext expanded its operations in Ohio by acquiring ownership of one licensed dispensary in Ohio, operated as Herbal Wellness Center Ohio by Jackson Pharm, LLC.

Subsequently, on October 3, 2023, Vext further solidified its presence in Ohio by acquiring ownership of one licensed cultivation and one licensed processing facility through Appalachian Pharm Processing, LLC ("Appalachian Pharm Processing"), and Appalachian Pharm Products, LLC ("Appalachian Pharm Products") respectively. Additionally, Vext acquired all remaining equity interests of APP1803, LLC, exercising an option to purchase one licensed dispensary operating in Ohio: CannAscend Ohio Columbus, LLC ("CannAscend"). This expansion continued on October 16, 2023, with Vext entering a definitive agreement to acquire two additional dispensaries in Ohio currently operated by Big Perm's Dispensary Ohio, LLC ("Big Perm"), subject to regulatory approval by the Ohio Board of Pharmacy. Post-approval, Vext will offer administrative, operational, and support services to Big Perm, ensuring compliance with Ohio's regulations regarding medical marijuana.

On February 29, 2024, Vext expanded its operations in Ohio by acquiring CannAscend which included ownership of one licensed dispensary in Ohio, operated as Herbal Wellness Center Ohio Columbus by APP 1803, LLC.

Ohio, the seventh most populous state in the USA, with a population of approximately twelve million, launched its medical marijuana program in September 2016. Notable milestones include legalizing medical marijuana in June 2016, with the law taking effect on September 8, 2016, and the opening of the first medical marijuana dispensaries in January 2019. Additionally, in November 2023, voters in Ohio approved an adult-use marijuana program set to become effective in 2024.

On August 6, 2024, the Company began adult-use sales in the State of Ohio at all of its retail locations.

Throughout the period covered by this MD&A, Vext continued funding joint ventures and operating agreements with partners across various states in the United States. As of the date of this MD&A, these relationships have initiated commercial operations in Kentucky, Oklahoma, and California.

A more detailed description of the Company's business can be found in the Company's 2019 Annual Information Form, which is available on the Company's profile on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

## 2.2 Subsidiaries and Affiliates

As of June 30, 2024, Vext's subsidiaries and affiliates are as follows:

<b>Name</b>	<b>Jurisdiction</b>	<b>Ownership</b>
Vext Science, Inc.	BC, Canada	
<b>Subsidiaries:</b>		
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%
ReVibe Cannabis, LLC	Arizona, USA	100%
New Gen RE Kentucky LLC	Kentucky, USA	100%
New Gen Ohio, LLC	Ohio, USA	100%
New Gen Ohio Real Estate, LLC	Ohio, USA	100%
New Gen Athens, LLC	Ohio, USA	100%
New Gen Columbus, LLC	Ohio, USA	100%
Jackson Pharm, LLC dba Herbal Wellness Center Ohio Jackson	Ohio, USA	100%
Appalachian Pharms Processing, LLC	Ohio, USA	100%
Appalachian Pharms Products, LLC	Ohio, USA	100%
APP 1803, LLC dba Herbal Wellness Center Ohio Columbus	Ohio, USA	100%
<b>Joint Ventures:</b>		
Vapen Kentucky, LLC	Kentucky, USA	50%
Vapen Oklahoma, LLC	Oklahoma, USA	25%
<b>Joint Operations:</b>		
Happy Travels, LLC	California, USA	50%

## 2.3 Industry Overview and Current Operating Environment

### Arizona

Quarter Update	<p>Consumer-facing businesses, especially those in the cannabis sector, are facing significant sales headwinds.</p> <p>Several factors are contributing to this:</p> <ul style="list-style-type: none"> <li>• Reduced discretionary spending: Consumers have less disposable income due to ongoing inflation and rising interest rates, leading to cutbacks in non-essential purchases.</li> <li>• Limited access to credit: Cannabis consumers cannot use traditional banking methods for purchases, further constraining their spending power.</li> <li>• Rising cost of living: Increasing rent and limited savings disproportionately impact lower-income consumers, a key demographic for the cannabis market.</li> </ul> <p>These challenges are reflected in the recent Arizona market performance. The second quarter of 2024 saw an approximate (15%) decrease in total sales compared to the second quarter of 2023.</p>
Retail/Brands	<p>As of June 30, 2024, there were 168 operating dispensaries in Arizona. As of June 30, 2023 there were 148 operating dispensaries. This represents an increase of +13.5%.</p> <p>Using available data from the State of Arizona, the average dispensary in May 2024 had net sales of \$557,094 compared to \$814,968 in May 2023. This represents a decrease of (31.6%) on an average per dispensary basis.</p> <p>Acquisition multiples for dispensaries in Arizona are still relatively high. Acquisitions involving all cash are seeing some easing of price multiples, but they are still high given overall market valuations. Arizona laws capping the number of dispensaries and communities zoning requirements should keep dispensary valuations high for the foreseeable future. There is excess cultivation capacity and concentrate brands and products in Arizona, which will continue to put downward pressure on pricing and increase the proportion of in-house products sold on dispensary shelves as operators work to improve mix and preserve margin.</p>
Wholesale	<p>The market continues to have an oversupply of cultivators and flower products which has been impacting wholesale flower pricing. Retail pricing to end consumers has been impacted, but not as dramatically as in the wholesale channel. The majority of dispensary operations are vertically operated and primarily focused on selling their own products in their own retail locations to maximize their margins.</p> <p>While Arizona licensing is vertical and limited, some license owners have decided to “lease” the right to cultivate to non-license holders. These non-license holding cultivation operators do not have retail operations to sell their own product and are solely reliant on the wholesale channel. This phenomenon has put further downward pressure on wholesale pricing and leaves operators without retail doors, vulnerable to market conditions.</p>



**The following is an overview of the Company’s vertically integrated operations in Arizona:**

Retail	<p><b>Herbal Wellness Center, Central Phoenix</b></p> <p>4126 W Indian School Road, Phoenix, Arizona</p> <p><b>Herbal Wellness Center (Organica License), North Phoenix</b></p> <p>1720 E Deer Valley Road, Phoenix, Arizona</p>	<p>Vext’s two retail dispensaries were part of the original licensing of dispensaries in Arizona, allowing them to serve both recreational and medical patients. Strategically located in high-traffic areas within the Phoenix metro area, the dispensaries have a significant market presence.</p>
Cultivation	<p>Phoenix - 10,000 square feet under canopy (used for R&amp;D)</p> <p>Eloy (Phase I) – 17,000 square feet under canopy</p>	<p>Vext produces almost exclusively for its own needs, with a goal of minimizing any wholesale flower sales, and matching any expansion to the requirements of its own retail storefronts. This should result in better profit margins.</p> <p>The Eloy facility also has estimated space for an additional 17,000 square feet of canopy in a Phase II expansion, should Vext require the capacity. Currently, Vext is leasing the space to a non-cannabis company, off setting some fixed property expenses.</p>
Manufacturing	<p>Fully built-out 9,000 sq. ft. manufacturing facility</p>	<p>The Company owns a manufacturing facility that supports the production of its Vapen branded products and offers contract manufacturing services. All facilities are Company-owned and equipped to ensure efficient operations.</p> <p>The Company's manufactured products have gained a strong market presence and are sold in both Company-owned and non-owned dispensaries in Arizona.</p>

Refer to Section 4.1.2 of this MD&A for a detailed analysis into the Company’s operations in Arizona.

## Ohio

Quarter Update	The Ohio market continues to mature and expand. We still view Ohio as one of the most attractive opportunities in US cannabis. Adult use sales began on August 6, 2024 and has the potential to increase the number of participating customers significantly.
Retail/Brands	Active patient count decreased significantly in the second quarter 2024 compared to first quarter 2024. With adult use program beginning on August 6, 2024, we expect this trend to reverse with a significant increase in customer count during the third quarter 2024.
Wholesale	Wholesale sales continued to grow in the quarter. The additional dispensaries and the anticipation of adult use beginning has increased demand at the dispensary level. We anticipate that trend continues for the foreseeable future as end sales in the state continue to accelerate with the implantation of the adult use program.
Regulatory Update	On August 6, 2024, adult use sales began in the State of Ohio.

**The following is an overview of the Company's operations in Ohio:**

Retail	<p><b>Herbal Wellness Center, Jackson</b> Jackson, Ohio</p> <p><b>Herbal Wellness Center, Columbus</b> Columbus, Ohio</p> <p><b>Dispensary #3 &amp; #4</b> Athens, Ohio and Jeffersonville, Ohio Big Perm pending acquisition</p>	<p>Starting in 2023, we have expanded our successful dispensary operations into Ohio by acquiring Buckeye Botanical in Jackson, Ohio. The dispensary has been rebranded as Herbal Wellness Center.</p> <p>On February 29, 2024, the Company completed the acquisition of CannAscend in Columbus, Ohio. The dispensary has been rebranded as Herbal Wellness Center.</p> <p>For Dispensary #3 &amp; #4, we are still awaiting regulatory approval and eligibility to submit an application for license transfer. On July 16, 2024, the Company announced that pursuant to an amendment executed by the parties, the consideration for the proposed acquisitions of Dispensary #3 &amp; #4 was reduced from \$9.4 million to \$7.7 million.</p>
Cultivation	Jackson, Ohio - 25,000 sq. ft. fully built out operating cultivation facility	<p>Tier One cultivation facility in Jackson, Ohio - Tier One cultivators are allowed to expand from an initial cultivation area of up to 25,000 square feet to 50,000 square feet.</p> <p>On October 3, 2023, we completed the transfer of ownership of Appalachian Pharm Processing, together with its subsidiaries and affiliated companies, and have begun consolidating their operations in Q4 2023.</p>
Manufacturing	Jackson, Ohio - Fully built out and operating manufacturing facility	<p>On October 3, 2023, we completed the transfer of ownership of Appalachian Pharm Processing, together with its subsidiaries and affiliated companies, and have begun consolidating their operations in Q4 2023.</p>

Refer to Section 4.1.3 of this MD&A for a detailed analysis into the Company's operations in Ohio.

# GROWTH STRATEGY, COMPETITIVE ADVANTAGE AND STRATEGIC PRIORITIES

## 3.1 Growth Strategy

The Company's primary focus remains on managing its retail presence and market share in the Arizona market while it continues to experience volatility as the oversupply of product & brands normalizes. The Company is focusing its growth & expansion opportunities in Ohio by making investments into vertical integration. The Company's vertically integrated Ohio facilities were online and operational prior to the implementation of the legislation to legalize adult use in Ohio, which occurred on August 6, 2024. Emphasis is placed on entering markets with limited licenses that allow for vertical operations. Furthermore, the Company actively seeks out attractive acquisition opportunities, with a principal focus on further consolidating its position in its current core markets.

Marketing and sales strategies are principally focused on attracting new and existing patients and customers to the Company's owned dispensaries and promoting its owned brands to these customers. Vext sees ample opportunity to continue to grow in its current markets, specifically Ohio, and with recent legalization in Kentucky for medical purposes, the Company sees a favorable opportunity to convert its hemp operations in the state into THC operations to improve returns.

## 3.2 Competitive Advantages

- **Product Strength:**

The Company has developed and supports the Herbal Wellness Center retail brand and Vapen brand of products. These products are recognized for their high quality and competitive price structure. In Arizona and Ohio, the Vapen brand is available in Company owned and other 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 and Ohio. Joint ventures, as noted in Section 4.1.4 of this MD&A, are expected to further expand the distribution capability of the Company and provide it with both incremental returns on existing intellectual property, as well as optionality in emerging markets that could prove to be worthy of larger vertically integrated footprints as they develop. 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 profitably, while prudently accessing the 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 and financial returns. The Company has completed and brought online new manufacturing centers and cultivation to maximize throughput. The operations team brings a wealth of expertise in manufacturing, distribution, and retail operations, spanning both the cannabis industry and other sectors.

- **Research and Innovation:**

In-house research and development (R&D) facilities enable consistent production and the continuous development of new products. The Company has made significant investments in equipment and facilities, enabling efficient production and cost structures that support maintaining or growing margins in different macroeconomic situations.

### 3.3 Accomplishments and Future Priorities:

#### Accomplishments in Q2 2024

1. **Ohio Market Expansion:** Began to increase the output of the cultivation and manufacturing facility in Ohio in anticipation of adult use sales. The Company has now received approval from the Ohio Division of Cannabis Control (DCC) to begin selling adult-use cannabis on August 6, 2024.
2. **Strategic Acquisition:** Completed the integration of CannAscend, including one dispensary in Ohio and rebranded as Herbal Wellness Center Columbus.
3. **Operational Growth:** Eloy, Arizona cultivation facility realization and improvements in yields vs. legacy facilities.

#### Objectives for 2024 and Beyond

1. **Adult-Use Transition:** Successfully transition existing Ohio dispensaries to serve both medical and adult-use markets.
2. **Arizona Focus:** Prioritize optimizing the vertical footprint in Arizona, driving efficiency and growth with existing assets.
3. **Kentucky Expansion:** Participate in the Kentucky licensing process, aiming to convert the existing CBD production joint venture into a medical cannabis operation.
4. **Big Perm Acquisition:** Complete the transaction to gain full ownership and control of two Big Perm dispensaries.
5. **Strategic Growth:** Identify additional dispensary locations in existing markets to drive accretive growth.

# COMMENTARY ON OVERALL PERFORMANCE

## 4.1 Summary of Operations

### 4.1.1 Financial Performance Overview for three months ended June 30, 2024 and 2023

#### Sales

June 30, 2024	% Change 2024 vs. 2023	June 30, 2023
\$8,426,928	(8.3)%	\$9,187,122

- The decrease in annual sales is attributed to declines in Arizona revenue with offset from inclusion of consolidated Ohio cultivation & processing revenue.
- After normalizing for consolidation, Ohio sales declined in Q2 2024. As discussed in the MD&A for year end 2023, we have anticipated that in 2024, Ohio medical sales will decline as the patient count declines from non-renewals before recreational sales are permitted.

### Net Income (loss) after taxes for three months ended June 30, 2024 and 2023

June 30, 2024	2024 % of Revenue	% Change 2024 vs. 2023	June 30, 2023	2023 % of Revenue
\$(4,390,035)	(52.1)%	(919.9)%	\$535,454	5.8%

- Q2 2024 Net Income was impacted by declines in Arizona revenue and increased cost of goods sold as the Company increases inventory production in Ohio.
- Q2 2023 Net Income included a +\$1.6M ERC Tax Credit.
- As a result of the Ohio acquisitions, Depreciation and Amortization expenses increased by +\$1.9M compared to the Q2 2023.

#### 4.1.2 Arizona

##### Operations Update

Primary Focus	We are continuing our focus on customer traffic and cost control in retail, manufacturing and cultivation operations.
Retail Performance	<p>Our retail operations comprise two stores in Arizona. We benchmark individual store performance against the respective state's average sales per retail location. Both Arizona stores experienced a sales decline in Q2 2024, compared to Q1 2024, consistent with the State average per store sales decline of (15%).</p> <p>The sales decline was driven by a decrease of customers of (5.5%), and a decrease in average ticket of (6.9%).</p> <p>In Q2 2024, we reduced headcount in our retail operations by approximately (20%), leading to a (8.4%) decrease in expenses compared to Q1 2024. We expect to achieve additional operating expense reductions throughout Q3 2024 while maintaining and improving customer service levels.</p>
Cultivation and Manufacturing Update	<p>The Company continues with operations at the Eloy cultivation facility and completed five (5) harvests in Q2 2024. Our average crop yield (+40%) and potency at Eloy have improved significantly compared to the legacy Arizona cultivation facilities, and are now above industry averages.</p> <p>We will continue to monitor our retail sell through and adjust our cultivation capacity at the Phoenix cultivation.</p>
Operating Expenses	<p>Controllable operating expenses in Q2 2024 decreased approximately (12%) compared to Q1 2024 primarily due to reduction in consulting expenses and employee costs.</p> <p>We anticipate controllable operating expenses as a percentage of Revenue to decline as the already strong Eloy cultivation outcomes continue to improve.</p>
Wholesale market	Vext's operations in Arizona are not built on wholesale operations being a significant portion of revenue, so we continue to be well positioned in these market conditions.

For commentary on the overall Arizona market, please refer to Section 2.3 of this MD&A.

### 4.1.3 Ohio

#### Operations Update

Primary focus	<ul style="list-style-type: none"> <li>• Adult-use sales began on August 6, 2024.</li> <li>• Consolidation of the two additional retail locations currently under contract, and further expansion into the State up to the limit of eight (8) total retail locations.</li> <li>• Begin construction on new retail facilities to facilitate expansion.</li> <li>• Expansion of cultivation capacity in anticipation of adult-use sales demand.</li> </ul>
Retail Performance	<p>During the second quarter of 2024, our Columbus operation was fully consolidated for the entire period. For our consolidated Ohio retail locations, we experienced a Pro Forma (25.6%) decrease in total sales compared to the first quarter. However, due to consolidation timing, our consolidated retail sales grew +45.1%.</p> <p>While we anticipated a slowdown in sales due to the transition to adult-use cannabis, the actual decrease exceeded our expectations. This can be attributed to several factors:</p> <ul style="list-style-type: none"> <li>• Continued Decrease in Medical Customers: With the transition to recreational in the market, the medical customer base has continued to shrink.</li> <li>• Increase in Dispensaries: The number of dispensaries in Ohio has grown, leading to increased competition and a dilution of market share.</li> <li>• Rising Market Prices: Overall price increases in the market have likely impacted on consumer spending and contributed to the sales decline.</li> <li>• Macro-economic conditions in the overall economy as discussed previously for the U.S. consumer.</li> </ul>
Cultivation and Manufacturing Update	<ul style="list-style-type: none"> <li>• Net third-party wholesale sales grew approximately 23% comparing the second quarter of 2024 to first quarter 2024.</li> <li>• We saw a strong demand for our cultivation and manufactured products as retailers state-wide increased their inventory levels in anticipation of adult use sales.</li> </ul>



Operating Expenses	<ul style="list-style-type: none"> <li>Operating expenses at the manufacturing facility increased in Q2 2024 in anticipation of adult use sales. We are anticipating an increase in total Operating expenses in Q3 2024, but a decrease in Operating expenses as a percentage of revenue as our investments into additional inventory are monetized through adult use sales.</li> </ul>
Wholesale Market	<ul style="list-style-type: none"> <li>The recent time for adult-use cannabis in Ohio has led to some contraction in the retail medical market, as some patients transition to adult-use purchases. However, this is an opportunity for our wholesale business. Ohio's regulations for manufacturing and cultivation present a strong growth potential for wholesale cannabis, allowing us to capitalize on the expanding adult-use market.</li> </ul>

For commentary on the overall Ohio market, please refer to Section 2.3 of this MD&A.

#### 4.1.4 Joint Ventures and Joint Operations

In addition to our operations in Arizona, we consider Ohio to be one of the most promising markets in the United States. We are also particularly encouraged by the developments in Kentucky regarding a medical marijuana program. We believe that our existing relationships will grant Vext a competitive advantage in obtaining licenses for this program.

STATE	FOOTPRINT	VAPEN PRODUCTS IN MARKET	PRODUCT TYPE	VEXT RELATIONSHIP	VEXT ECONOMIC INTEREST	CURRENT STATUS	EXPECTED SHORT TERM DEVELOPMENTS
Ohio	Retail	NA	THC	LOI (Big Perm)	NA	Current license holder received Certification of Operation and is fully functional	Awaiting approval from Ohio Board of Pharmacy for ownership change
	Retail	NA	THC	LOI (Big Perm)	NA	Current license holder received Certification of Operation and is fully functional	Awaiting approval from Ohio Board of Pharmacy for ownership change
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

#### 4.2 Material Events That Occurred Subsequent to the Period

- On July 16, 2024, the Company announced that it had received dual-use Provisional Licenses from the Ohio Division of Cannabis Control (DCC), for its fully built-out cultivation and manufacturing facility as well as its operated dispensaries in Jackson and Columbus. The Provisional Licenses were the prerequisites towards obtaining the Certificate of Operations from the DCC, which will enable Vext to enter the adult-use market.
- On August 2, 2024, the Company announced it had secured Certificates of Operation for the dual licensing of its cultivation and manufacturing facility as well as its operated dispensaries in Jackson and Columbus. The Company has now received approval from the Ohio Division of Cannabis Control (DCC) to begin selling adult-use cannabis on Tuesday, August 6, 2024.

### 4.3 Additional Commentary Around Financial Performance

The Company has reviewed its financial position and results of operations for the six months ended June 30, 2024 and, the following determinations have been made by management:

- a. There have been no inherent losses in the carrying value of the Company's assets since June 30, 2024. Management is confident that both current and long-term assets are fully collectible and realizable at their recorded values.
- b. As of the date of this MD&A, the Company has no obligations to third parties that require or will require renegotiation.
- c. While there are uncertainties regarding future events, the Company's outlook for adjusted EBITDA remains on track. Based on macroeconomic conditions and pressures on consumer discretionary spending, revenue in Arizona is expected to decline in 2024. Conversely, revenue in Ohio is expected to sharply increase in 2024 as a result of the implementation of adult use sales.
- d. The Company has secured funding for all its planned expansion initiatives in the markets discussed in this MD&A. As a result, the capital requirements for operating in these expanded markets have been fulfilled. Management exercises caution in utilizing its current liquid assets, and therefore, the previously disclosed 2023 expansion plans do not depend on additional external capital. Considering the current macroeconomic conditions, as projects near completion, the Company anticipates a significant reduction in capital spending.

# SELECT FINANCIAL PERFORMANCE

## 5.1 Financial Results of Operations

### Financial Results of Operations for the three months ended June 30, 2024 and 2023

	For the Three Months Ended		\$	%
	June 30, 2024	June 30, 2023	Change	Change
<b>SALES</b>	\$ 8,426,928	\$ 9,187,122	\$ (760,194)	(8.3)%
<b>NET COST OF GOODS SOLD</b>	6,872,936	6,517,402	355,534	(5.5)%
<b>GROSS PROFIT</b>	1,553,992	2,669,720	(1,115,728)	(41.8)%
<b>OPERATING EXPENSES</b>	5,313,879	1,992,529	3,321,350	(166.7)%
Accretion on debt	—	6,004	(6,004)	100.0%
Share of loss in joint ventures	(118,370)	(13,854)	(104,516)	(754.4)%
Change in fair value of debt	104,150	(263,829)	367,979	139.5%
Foreign exchange gain/(loss)	910	(310)	1,220	393.5%
Interest expense	(850,855)	(1,038,831)	187,976	18.1%
Interest income	49,023	28,019	21,004	(75.0)%
Miscellaneous income	57,750	—	57,750	
<b>Net (loss) before taxes</b>	(4,517,279)	(605,610)	(3,969,419)	645.9%
Income tax expense	127,244	1,141,064	(1,013,820)	88.8%
<b>Net income (loss) after tax</b>	(4,390,035)	535,454	(4,925,489)	(919.9)%
<b>Total comprehensive income (loss)</b>	\$ (4,390,035)	\$ 535,454	\$ (4,925,489)	(919.9)%
<b>Basic earnings (loss) per subordinate voting share</b>	\$ (0.01)	\$ —	\$ (0.01)	(316.1)%
<b>Diluted earnings (loss) per subordinate voting share</b>	\$ (0.01)	\$ —	\$ (0.01)	(316.6)%

### Sales:

The following table is a comparison of the category breakdown for the three months ended June 30, 2024 compared to the same period of 2023.

	June 30, 2024	June 30, 2023	\$ Change
Retail	\$ 8,155,644	\$ 8,971,710	\$ (816,066)
Wholesale, Manufacturing & Other	271,284	215,412	55,872
<b>Total Sales</b>	<b>\$ 8,426,928</b>	<b>\$ 9,187,122</b>	<b>\$ (760,194)</b>

Sales decreased by \$(760,194) which is a (8.3%) decrease comparing three months ended June 30, 2024 vs 2023. Declines in the two (2) Arizona Retail locations and one (1) Ohio retail location were partially offset by the addition of a second Ohio retail location in 2024.

**Gross Profit:**

The following table shows the comparison by category breakdown for three months ended June 30, 2024 compared to the same period of 2023.

	<u>June 2024</u>		<u>June 2023</u>
Cost of goods sold	\$ 6,645,433	Cost of goods sold	\$ 3,805,386
Wages and benefits	1,214,730	Wages and benefits	993,515
Amortization	2,169,066	Amortization	767,802
General & administrative	1,565,261	General & administrative	830,897
Subtotal expenses	<u>\$ 11,594,490</u>	Subtotal expenses	<u>\$ 6,397,600</u>
Gross profit	<u>1,781,495</u>	Gross profit	<u>2,789,522</u>
With the effect of biological inventory gross profit changes:	<u>\$ 1,553,992</u>	With the effect of biological inventory gross profit changes:	<u>\$ 2,669,720</u>

Gross profit for the three months ended June 30, 2024, was \$1,781,495 compared to \$2,789,522 for the same period in 2023. 2024 Amortization increase significantly from 2023 due to the acquisitions of Ohio assets. The impact of the Ohio acquisitions, reduced margins in Arizona due to state-wide overproduction, and the decision to increase expenses in Ohio in advance of adult use sales commencing on August 6, 2024, were the primary drivers of reduced Gross profit in Q2 2024 vs. Q2 2023. We are anticipating that the Arizona margin will continue to be challenged due to excess cultivation capacity, which we anticipate will eventually decline due to consolidation and capitulation by cultivators faced with shrinking margins. Ohio margins should improve with the implementation of adult-use statute and an expanded potential customer base.

**Financial Results of Operations for the six months ended June 30, 2024 and 2023**

	For the Six Months Ended		\$	%
	June 30, 2024	June 30, 2023	Change	Change
<b>SALES</b>	\$ 16,816,951	\$ 18,297,772	\$ (1,480,821)	(8.1)%
<b>NET COST OF GOODS SOLD</b>	13,096,659	10,866,159	2,230,500	20.5 %
<b>GROSS PROFIT</b>	3,720,292	7,431,613	(3,711,321)	(49.9)%
<b>OPERATING EXPENSES</b>	9,884,567	5,834,896	4,049,671	69.4 %
Accretion on debt	—	12,030	(12,030)	(100.0)%
Share of loss in joint ventures	(281,286)	(105,059)	(176,227)	167.7 %
Disposal of assets loss	(1,444)	—	(1,444)	— %
Change in fair value of debt	(356,720)	(1,242,298)	885,578	(71.3)%
Change in fair value of purchase option	(2,022,211)	—	(2,022,211)	— %
Foreign exchange gain/(loss)	1,469	(3,037)	4,506	(148.4)%
Interest expense	(1,740,988)	(1,900,019)	159,031	(8.4)%
Interest income	138,475	28,230	110,245	390.5 %
Miscellaneous income	68,250	—	68,250	— %
<b>Net (loss) before taxes</b>	(10,358,730)	(1,613,436)	(8,745,294)	542.0 %
Income tax (expense)/recovery	467,767	2,282,128	(1,814,361)	79.5 %
<b>Net income (loss) after taxes</b>	(9,890,963)	668,692	(10,559,655)	(1,579.2)%
<b>Total comprehensive income (loss)</b>	\$ (8,230,377)	\$ 608,513	\$ (8,838,890)	(1,452.5)%
<b>Basic earnings (loss) per subordinate voting share</b>	\$ (0.03)	\$ —	\$ (0.03)	— %
<b>Diluted earnings (loss) per subordinate voting share</b>	\$ (0.03)	\$ —	\$ (0.03)	— %

**Sales:**

The following table is a comparison of the category breakdown for the six months ended June 30, 2024 compared to the same period of 2023.

	June 30, 2024	June 30, 2023	\$ Change
Retail	\$ 13,290,103	\$ 16,942,547	\$ (3,652,444)
Wholesale, Manufacturing & Other	3,526,848	1,355,225	2,171,623
<b>Total Sales</b>	<b>\$ 16,816,951</b>	<b>\$ 18,297,772</b>	<b>\$ (1,480,821)</b>

Sales decreased by \$(1,480,821) which is a (8.1%) decrease comparing six months ended June 30, 2024 vs 2023. Decreased sales are primarily due to declines in Arizona retail & wholesale sales, offset by new sales in Ohio retail, cultivation & processing sales.

## Gross Profit:

The following table shows the comparison by category breakdown for six months ended June 30, 2024 compared to the same period of 2023.

	<u>June 2024</u>		<u>June 2023</u>
Cost of goods sold	\$ 13,096,659	Cost of goods sold	\$ 10,866,159
Wages and benefits	2,436,362	Wages and benefits	1,327,851
Amortization	4,041,600	Amortization	1,962,140
General & administrative	2,903,856	General & administrative	2,126,770
Subtotal expenses	<u>\$ 22,478,477</u>	Subtotal expenses	<u>\$ 16,282,920</u>
Gross profit	<u>3,720,292</u>	Gross profit	<u>7,431,613</u>
With the effect of biological inventory gross profit changes:	<u>\$ 2,887,807</u>	With the effect of biological inventory gross profit changes:	<u>\$ 7,371,434</u>

Gross profit for the six months ended June 30, 2024, was \$3,720,292 compared to \$7,431,613 for the same period in 2023. Gross profit in the second quarter of 2024 includes the impact of the second Ohio retail location, which consolidated on February 29, 2024, as well as three months of the Ohio cultivation & processing facility, which was consolidated in November 2023. We are anticipating that the Arizona margin will continue to be challenged due to excess cultivation capacity, which we anticipate will decline due to consolidation and capitulation by cultivators faced with shrinking margins. Ohio margins should improve with the implementation of adult-use statute and an expanded potential customer base.

## 5.2 Summary of Quarterly Results and Reconciliation of non-IFRS Measures (EBITDA and Adjusted EBITDA)

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

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:

	2024		2023				2022	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Revenue</b>	8,426,928	8,390,023	8,415,253	8,099,285	9,187,122	9,110,651	8,180,603	7,673,101
Gross profit before FV adjustments	1,781,495	1,938,797	3,041,778	3,186,541	2,789,521	4,642,093	4,092,811	4,624,430
Gross profit margin % before FV adj.	21%	23%	36%	39%	30%	51%	50%	60%
Change in FV of biological	227,503	604,982	1,207,553	381,800	119,802	(59,623)	(247,392)	(252,041)
Operating expense	5,313,879	4,570,687	8,615,401	4,527,143	1,992,529	3,887,819	4,152,091	4,206,798
Other (income) expense	757,392	3,437,062	(14,720,111)	1,180,174	1,282,800	1,881,902	115,106	55,715
Income taxes (recovery)	(127,244)	(340,522)	2,310,796	(1,064,372)	(1,141,064)	(1,141,064)	(6,209,576)	190,425
<b>Net Income after taxes</b>	<b>\$ (4,390,035)</b>	<b>\$ (6,333,412)</b>	<b>\$ 5,628,139</b>	<b>\$ (1,838,204)</b>	<b>\$ 535,454</b>	<b>\$ 73,059</b>	<b>\$ 6,282,582</b>	<b>\$ 423,533</b>
Basic earnings per subordinate voting share	\$ (0.01)	\$ (0.03)	\$ 0.03	\$ (0.01)	\$ —	\$ —	\$ 0.05	\$ —
Diluted earnings per subordinate voting share	\$ (0.01)	\$ (0.03)	\$ 0.03	\$ (0.01)	\$ —	\$ —	\$ 0.05	\$ —
Interest (net)	801,832	800,680	826,062	956,561	1,010,812	860,978	632,207	620,687
Income taxes (recovery)	(127,244)	(340,522)	2,310,796	(1,064,372)	(1,141,064)	(1,141,064)	(6,209,576)	190,425
Depreciation and amortization	3,886,756	3,587,409	3,510,216	2,350,373	1,859,779	1,845,036	1,774,672	1,579,906
<b>EBITDA</b>	<b>\$ 171,309</b>	<b>\$ (2,285,845)</b>	<b>\$ 12,275,213</b>	<b>\$ 404,358</b>	<b>\$ 2,264,981</b>	<b>\$ 1,638,009</b>	<b>\$ 2,479,885</b>	<b>\$ 2,814,551</b>
Share-based compensation	233,868	13,065	111,794	73,623	68,862	130,332	601,493	660,488
Accretion	—	—	(989)	(5,983)	(6,004)	(6,026)	—	—
Share (profit)/loss on joint ventures	118,370	162,916	(65,285)	47,777	13,854	91,205	40,256	53,014
(Gain)/loss on asset disposal	—	1,444	800,154	—	—	—	(13,127)	2,893
Refinance of loan payable	—	—	—	—	—	—	200,170	—
Loan costs WPCU loan	—	—	—	—	342	742,036	—	—
FV of WPCU loan	(104,150)	460,870	1,634,445	126,366	219,518	190,984	—	—
Loan costs EWB amortized	44,827	44,286	155,068	44,287	43,969	45,451	—	—
FV of APP1803 option	—	2,022,211	2,633,784	—	—	—	—	—
RSU taxes	—	4,199	3,789	4,274	4,274	75,825	119,900	—
Foreign exchange	(910)	(559)	1,881	448	310	2,726	(350)	(45)
ERC tax credit	—	—	—	—	(1,680,793)	—	—	—
Change in FV of biological	227,503	604,982	1,207,553	381,800	119,802	(59,623)	(247,392)	(252,041)
FV increment on acquired inventory sold	393,417	929,505	—	—	—	—	—	—
Gain on acquisition of control and bargain purchase	—	—	(20,550,163)	—	—	—	—	—
Reserves on Notes Receivable & Investments in Joint Operations	—	—	1,403,377	—	—	—	—	—
Executive Chairman Severance	—	—	940,000	—	—	—	—	—
<b>Adjusted EBITDA</b>	<b>\$ 1,084,234</b>	<b>\$ 1,957,074</b>	<b>\$ 550,621</b>	<b>\$ 1,076,950</b>	<b>\$ 1,049,115</b>	<b>\$ 2,850,919</b>	<b>\$ 3,180,835</b>	<b>\$ 3,278,860</b>
Adjusted EBITDA % of Revenue	12.9%	23.3%	6.5%	13.3%	11.4%	31.3%	38.9%	42.7%
<b>Annual Adjusted EBITDA</b>	<b>3,041,308</b>	<b>2024</b>	<b>5,527,605</b>	<b>2023</b>			<b>15,118,394</b>	<b>2022</b>



# BALANCE SHEET ANALYSIS

## 6.1 Financial Position:

### Financial Position at June 30, 2024

	June 30, 2024	December 31, 2023	Change
<b>ASSETS</b>			
Current assets	\$ 27,066,437	41,284,349	(14,217,912)
Non-current assets	117,810,925	108,275,457	9,535,468
<b>Total Assets</b>	<b>\$ 144,877,362</b>	<b>\$ 149,559,806</b>	<b>\$ (4,682,444)</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities	\$ 17,112,948	13,981,477	3,131,471
Long-term liabilities	40,765,583	40,596,054	169,529
Shareholders' equity	86,998,831	94,982,275	(7,983,444)
<b>Total liabilities and shareholders' equity</b>	<b>\$ 144,877,362</b>	<b>\$ 149,559,806</b>	<b>\$ (4,682,444)</b>

The following discussion of the Company's financial position is based on the Company's consolidated statement of financial position as at June 30, 2024.

## 6.2 Select Balance Sheet Highlights

### Current Assets

	June 30, 2024	December 31, 2023	\$ Change
Cash	\$ 3,389,738	\$ 8,720,132	\$ (5,330,394)
Notes receivable - current	1,930,067	6,689,325	(4,759,258)
Purchase option	—	4,903,211	(4,903,211)

- Please refer to Section 6.3 of this MD&A for details on cash.
- The decrease in Notes receivable - current & Purchase option was driven by the completion of the acquisition of CannAscend.

### **Non-current Assets**

	<b>June 30, 2024</b>	<b>December 31, 2023</b>	<b>\$ Change</b>
Intangible assets	\$ 68,111,406	\$ 61,992,346	\$ 6,119,060
Goodwill	5,135,153	2,069,268	3,065,885

- The increases in Intangible assets & Goodwill was driven by the completion of the acquisition of CannAscend.

### **Current Liabilities**

	<b>June 30, 2024</b>	<b>December 31, 2023</b>	<b>\$ Change</b>
Payables and accrued liabilities	\$ 8,985,667	\$ 6,761,764	\$ 2,223,903
Notes payable – current portion	6,787,177	5,787,177	1,000,000

- The increase in Payables and accrued liabilities was primarily an increase in Trade Payables and Accrued liabilities, including those assumed as part of the acquisition of CannAscend.
- The increase in Notes payable - current portion was related to a \$1,000,000 draw against the Company's line of credit announced on May 29, 2024.

### **Long-term Liabilities**

	<b>June 30, 2024</b>	<b>December 31, 2023</b>	<b>\$ Change</b>
Notes payable – non-current portion	\$ 28,494,870	\$ 30,054,393	\$ (1,559,523)
Deferred tax liabilities	9,722,862	8,257,368	1,465,494

- The decrease in Notes payable - current portion was related to normal loan payments offset against a new promissory note related to real property acquisition of a retail location in Athens, OH.
- The increase in Deferred tax liabilities was driven by the completion of the acquisition of CannAscend.

### **Working Capital Position**

As at June 30, 2024, the Company's working capital position was \$9,953,489 compared to December 31, 2023 of \$27,302,872. The decrease of \$(17,349,383) was primarily driven by reductions in 1) Cash, 2) Notes receivable - current, and 3) Purchase option as a result of the acquisition of CannAscend. The completion of the CannAscend acquisition included a cash payment of approximately \$2.9 million, reclassification of the approximately \$4.8 million in related Notes Receivable, and removal of the \$4.9 million related purchase option. There was also an increase of approximately \$2.0 million in Payables and accrued liabilities as a result of the CannAscend acquisitions and an increase of \$1.0 million in Notes payable - current as a result of the draw against the Company's line of credit.

### 6.3 Cash from Activities

The following table summarizes the sources and uses of cash for the six months ended June 30, 2024 compared to and the same period of 2023:

	June 30, 2024	June 30, 2023	\$ Change
Cash provided by operating activities	\$ (482,989)	3,448,883	(3,931,872)
Net cash used in investing activities	(4,221,854)	(2,959,660)	(1,262,194)
Net cash used in financing activities	(625,551)	(2,142,931)	1,517,380
Net change in cash	\$ (5,330,394)	(1,653,708)	(3,676,686)

#### 2024 vs. 2023

<b>OPERATING ACTIVITIES</b>	<b>\$(3,931,872)</b> change  The change in operating cash flow was primarily driven by declines in Net income offset by non-cash items such as Amortization (+\$2.0 million), Depreciation (+\$1.6 million), fair value of purchase option (+\$2.0 million). The Ohio acquisitions and declines in Arizona revenues have driven declines in Net income, and Ohio related expenses increased in Q2 2024 in anticipation of adult use sales commencing.
<b>INVESTING ACTIVITIES</b>	<b>\$(1,262,194)</b> change  The change in investing cash flow was primarily driven by cash paid related to the CannAscend acquisition, offset by declines in property, plant and equipment acquisitions related to the Eloy cultivation facility. The Eloy cultivation facility is operational and had its first harvest in Q1 2024.
<b>FINANCING ACTIVITIES</b>	<b>\$1,517,380</b> change  The change in financing cash flow was primarily driven by a draw against the Company's line of credit, declines in loan payments related to Ohio acquisition and in loan proceeds received, offset by normal course loan payments.

### 6.4 Liquidity and Capital Resources

Our condensed consolidated interim financial statements follow International Financial Reporting Standards (IFRS) applicable to a going concern. This means we expect to remain operational for the foreseeable future, realizing assets and meeting liabilities during the normal course of business. The Company's ability to continue operations depends on generating adequate revenue and securing necessary financing. We intend to meet our future financial needs through continued operations.

As of June 30, 2024, our working capital was \$9,953,489 down from \$27,302,872 at December 31, 2023. Despite this decrease, management believes this working capital remains sufficient to sustain operations beyond one year. The primary reason for the decline was the completion of the acquisition of CannAscend, providing the Company with a second consolidated dispensary in Ohio.

The Company has secured loans against our real property. These loans were essential in acquiring Appalachian Pharm Processing, Appalachian Pharm Products, and APP 1803. As of June 30, 2024, the outstanding secured debt of

approximately \$28 million represents a roughly 50% loan-to-appraised value ratio. This secured debt is held by a traditional financial institution at competitive interest rates. The loans require the Company to maintain certain financial covenants including a debt coverage ratio and a debt to tangible net worth ratio. The Company obtained a waiver on the debt covenants prior to December 31, 2023.

In October 2023, the Company closed a private placement financing of 67,647,058 subordinate voting shares at a price of \$0.17 per share for aggregate gross proceeds of \$11.5 million (the “2023 Private Placement”). In connection with the 2023 Private Placement, the Company entered into a shareholders agreement with certain management shareholders and other subscribers under the 2023 Private Placement (collectively, the “Subject Shareholders”), pursuant to which the Company and the Subject Shareholders agreed to a number of rights and restrictions applicable to the Company and the Subject Shareholders.

In December 2023, we agreed to the terms of a conversion transaction pursuant to which approximately \$4.6 million of secured shareholder notes would be converted into equity. This conversion will reduce both ongoing interest expenses and a future balloon payment. Such conversion transaction was completed on March 6, 2024, after receipt of applicable regulatory approval.

### Key Points

1. Working capital, while decreased, is sufficient to sustain operations.
2. Secured debt is structured responsibly, with favorable terms.
3. The Company has been able to obtain equity financing to assist with capital expenditures.
4. The recent debt conversion improves our financial position.

## 6.5 Use of Proceeds from Financing Activities

During the year ended December 31, 2023, the Company completed the following financings:

1. The Company completed the 2023 Private Placement through the issuance of 67,647,058 subordinate voting shares of the Company at a price of \$0.17 per subordinate voting share, including the full exercise of a \$1.5 million over-allotment option as outlined in the Company's news release of October 2, 2023.
2. The following table sets out a comparison of how the Company used the aggregate net proceeds of the 2023 Private Placement, an explanation of variances and the impact of variances on the ability of the Company to achieve its business objectives and milestones:

Intended Use	Actual Use	Explanation of Variance and Impact
Potential acquisitions	Purchase of Big Perm's Dispensary Ohio, LLC (\$7,700,000) Transaction expenses of advisors (\$395,000)	N/A
Construction and improvements	Cultivation buildout (tenant improvements) (\$2,912,217)	N/A

## ADDITIONAL INFORMATION

### 7.1 Related Party Transactions

Related parties and related party transactions impacting the condensed consolidated interim financial statements not disclosed elsewhere in such 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, Chief Financial Officer, and Corporate Secretary.

Remuneration attributed to key management personnel for the six months ended June 30, 2024 and June 30, 2023 is summarized as follows:

	June 30, 2024	June 30, 2023
<b>Share-based compensation</b>	<b>\$ 113,701</b>	<b>\$ 104,630</b>
Eric Offenberger, CEO, COO, and Director	(3,051)	78,914
Trevor Smith, CFO	24,428	—
Mark Opzooomer, Director	30,818	15,578
Stephan Bankosz, CFO (former)	—	10,138
Spiro A. Phanos, Director	19,609	—
Terry L. Creighton, Director	19,609	—
David Johns, Director and General Manager Ohio Operations	13,933	—
Nalee Pham, Corporate Secretary	8,355	—
<b>Salaries and wages included in cost of goods sold</b>	<b>107,630</b>	<b>161,737</b>
Jason Nguyen, Executive Chairman	—	92,017
Eric Offenberger, CEO, COO, and Director	18,583	18,580
Stephan Bankosz, CFO (former)	—	51,140
Trevor Smith, CFO	43,945	—
David Johns, Director and General Manager Ohio Operations	12,432	—
Nalee Pham, Corporate Secretary	32,670	—
<b>Salaries, wages and commissions included in operating expenses</b>	<b>304,060</b>	<b>337,523</b>
Jason Nguyen, Executive Chairman	—	150,133
Eric Offenberger, CEO, COO, and Director	136,277	136,250
Stephan Bankosz, CFO (former)	—	51,140
Trevor Smith, CFO	43,945	—
David Johns, Director and General Manager Ohio Operations	91,168	—
Nalee Pham, Corporate Secretary	32,670	—
<b>Consulting fees included in operating expenses</b>	<b>78,500</b>	<b>78,711</b>
Mark Opzooomer, Director	42,500	54,227
Denise Lok, CFO (former)	—	24,484
Spiro A. Phanos, Director	18,000	—
Terry L. Creighton, Director	18,000	—
<b>Total</b>	<b>\$ 603,891</b>	<b>\$ 682,601</b>

All key management personnel remuneration are recorded at actual current costs and are paid as part of their ongoing contractual commitment with the Company in the form of an Employment Agreement or a Director Retainer Agreement.

Balances with related parties:

The Company sells non cannabis consumables to its joint ventures ("JVs"), Vapen Oklahoma and Vapen Kentucky, and joint operations ("JOs"), Happy Travels, at cost plus a nominal handling fee. Prior to October 3, 2023, the Ohio operations were also purchasing consumables from Vext subsidiaries. These transactions are recorded at their fair value, which is considered to be cost plus handling. There are no ongoing purchase commitments from the JVs or JOs. The collectability of these receivables is dependent on the individual JV's or JO's cash flow generation. Unlike typical trade receivables, the Company, as a direct contributor, may be called upon to cover any cash shortfalls within the JV or JO, depending on the specific operation. The Company has a strategic interest in certain JVs and JOs and may choose to acquire them in the future. When assessing the fair value of such acquisitions, any outstanding receivables from the JV or JO are considered as part of the overall purchase consideration. The value of "cash" remitted to JVs and JOs, including payroll or other contributions, is recorded at the amount of cash paid.

Combined the sales and contributions are treated as a note receivable from the operating entities.

Product Sales	June 30, 2024	December 31, 2023
Vapen Kentucky	\$ —	\$ 54,844
Happy Travel LLC	—	23,725
Vapen Oklahoma - Processing	1,827	137,277
<b>Total</b>	<b>\$ 1,827</b>	<b>\$ 215,846</b>

Cash Contributions for Operating Expenses	June 30, 2024	December 31, 2023
Vapen Kentucky	\$ 79,398	\$ 227,664
Happy Travel LLC	150,898	905,425
Vapen Oklahoma - Processing	10,002	1,749
<b>Total</b>	<b>\$ 240,298</b>	<b>\$ 1,134,838</b>

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

	June 30, 2024	December 31, 2023
11.5% interest bearing, due on December 31, 2025 from Jason T. Nguyen, Executive Chairman and Director	\$ 1,337,480	\$ 1,328,383

The Promissory Note issued by the Executive Chairman and Director is recorded at present value of the principle amount owed. This related party balance due has ongoing contractual and other commitments related to the settlement agreement announced on January 16, 2024.

Effective December 31, 2023, the Company amended the terms of the existing promissory note issued by Mr. Nguyen in favor of the Company, in the principal amount of \$1,328,383 (the "Promissory Note"), to provide for, among other things, the following: (i) an extension to the maturity date of the Promissory Note to the earlier of (x) December 31, 2025, (y) the date in which Mr. Nguyen sells any shares of the Company (subject to limited exceptions), and (z) any change of control of the Company; (ii) an increased interest rate equal to 11.5% per annum, compounded quarterly; (iii) quarterly scheduled interest payments; (iv) a mandatory prepayment of no less than 50% of the Promissory Note in the event the volume weighted average trading price of the subordinate voting shares of the Company reaches a specified threshold, enforceable at the discretion of the Company; and (v) the pledge by Mr. Nguyen of all shares of the

Company legally or beneficially owned by Mr. Nguyen as security for the obligations of Mr. Nguyen under the Promissory Note.

**Due to related parties:**

David Johns (Director and General Manager Ohio Operations) was one of the sellers of the App Pharma entities and as such holds a portion of the promissory notes payable for App Pharms Products and App Pharms Processing. During the six months ended June 30, 2024 \$29,590 in interest was accrued on these notes payable. Interest begins January 1, 2025. During the six months ended June 30, 2024 and December 31, 2023 the portion of the promissory notes payable due is as follows:

	<b>June 30, 2024</b>	December 31, 2023
Promissory Note - App Pharms Products (current)	\$ 45,372	\$ 45,372
Promissory Note - App Pharms Processing (current)	16,587	16,587
<b>Total Current Promissory Note Payable (General Manager Ohio Operations)</b>	<b>61,959</b>	<b>61,959</b>
Promissory Note - App Pharms Products (non-current)	521,778	521,778
Promissory Note - App Pharms Processing (non-current)	158,046	158,046
<b>Total Non-current Promissory Note Payable (General Manager Ohio Operations)</b>	<b>679,824</b>	<b>679,824</b>
<b>Total Promissory Note Payable (General Manager Ohio Operations)</b>	<b>\$ 741,783</b>	<b>\$ 741,783</b>
Interest Payable	\$ 29,590	\$ —
<b>Total Interest Payable Payable (General Manager Ohio Operations)</b>	<b>\$ 29,590</b>	<b>\$ —</b>

Amounts due to related parties as at June 30, 2024 and December 31, 2023 included the following:

	<b>June 30, 2024</b>	December 31, 2023
Payables and Accrued Liabilities		
Jason T. Nguyen, Executive Chairman	\$ 711,048	\$ 948,314
Mark Opzoomer, Director	—	13,341
<b>Total</b>	<b>\$ 711,048</b>	<b>\$ 961,655</b>

All amounts due to related parties were recorded at actual current costs. For Mr. Nguyen, amounts due were related to severance due with ongoing commitments outlined in the Company's press release dated January 16, 2024.

## 7.2 Outstanding Share Data

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

<b>Class of Security</b>	<b>Number Outstanding</b>
Subordinate voting shares	178,284,721
Multiple voting shares*	672,747
RSUs	3,254,465
Stock options	5,962,334
Warrants	365,909
Special advisory warrants	1,000,000

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

## 7.3 Proposed Transactions

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

## 7.4 Off-Balance Sheet Transactions

There are no off-balance sheet transactions.

## 7.5 Other Information

Additional information on the Company is available on the Company's profile on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).



# KEY RISKS, RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

## 8.1 Risk Management and Financial Instruments

The fair value of the Company's amounts 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 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. The Company performed an analysis of the accounts receivable and assessed the aging. A determination was made to create an allowance for doubtful accounts based upon the aging.

The following table sets forth the accounts receivables balances as at December 31, 2023 and June 30, 2024, including balances aged over 6 months, 9 months and 1 year as of such dates:

As of	Current	Aged 6 Months	Aged 9 Months	Aged 1 Year	Total
December 31, 2023	74%	11%	7%	8%	\$1,260,551
June 30, 2024	90%	7%	1%	2%	\$1,337,008

The Company has historically viewed its accounts receivables as having minimal risk of credit loss for the following reasons:

- (i) For accounts receivables owed by related parties, the Company has the ability to influence the economic decisions of such related parties through the joint venture arrangements or other agreements and, in certain instances, could force a capital call to repay such balances.
- (ii) For accounts receivables owed by licensed entities, such liabilities cannot currently be discharged through liquidation proceedings or a sale. Rather, such liabilities attach to the license and the Company maintains the ability to collect on the license to repay such balances.
- (iii) The Company routinely obtains personal guarantees from the principals of entities that purchase the Company's products. While the Company did record an allowance for expected credit loss as in the annual financial statements for the year ended December 31, 2022, in subsequent interim periods the Company

determined no allowance was necessary. The Company did record an allowance of approximately \$465,583 in Q4 2023 related to accounts receivables owed by Happy Travels and a non-licensed arm's length party.

### 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 19 of the condensed consolidated interim financial statements. As at June 30, 2024, the Company had cash, accounts receivable and short-term notes receivable of \$6,656,813 to settle its current liabilities of \$17,112,948. With the announcement of the Standby Credit Facility and the anticipated beginning of adult use sales in Ohio, 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 that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates.

As of June 30, 2024, \$35,282,047 of the Company's borrowings include a variable interest rate component. As a result, the Company is subject to interest rate risk with respect to such floating-rate debt. For the period ended June 30, 2024, a hypothetical 100 basis point increase in the variable interest rate would increase the annual interest expense by approximately \$142,477.

#### 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.

## **8.2 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 Staff Notice 51-352, below is a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where, as of June 30, 2024, the Company was currently directly involved or had ancillary involvement. In accordance with Staff 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, forty (40) states, Washington D.C. and Puerto Rico have legalized medical marijuana, and twenty-four (24) 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 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. As of June 30, 2024, there are 168 active dispensaries (of which 140 are also

active medical marijuana dispensaries) 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*, A.R.S. Title 36, Section 28.1 (the "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 40 states to have some form of medical marijuana law in place, while another 24 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 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. Vext and its subsidiaries are following 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 one ounce (28 grams) of marijuana (with no more than five 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. Vext and its subsidiaries are following Arizona's adult use marijuana regulatory requirements and programs where applicable.

## **Ohio Overview:**

Ohio has authorized the cultivation, processing, and dispensing of medical marijuana products by licensed dispensaries throughout the state. As of June 30, 2024 there were 126 operating dispensaries registered in Ohio. In 2016, Ohio became the 25th state to legalize medical cannabis under House Bill 523: the Ohio Medical Marijuana Control Program (OMMCP). On November 3, 2023, Ohio voters passed Issue 2, an initiative to legalize recreational marijuana use for adults, pursuant to which proposed adult use legislation is set to take effect in 2024. On August 6, 2024, adult use sales began in the State of Ohio. Ohio is one of the 40 states to have some form of medical marijuana law in place, and one of 24 states that has legalized marijuana for adult recreational use.

### *Medical Use*

Ohio medical marijuana cardholders are entitled to purchase up to a 90-day supply of product. Purchases are tracked by cardholders, and dispensaries are required to report sales data to the state to ensure compliance with purchase limits. Vext and its subsidiaries adhere to all Ohio medical marijuana regulatory requirements and programs.

### *Adult Use*

The Ohio Division of Cannabis Control has issued dual-use permits to most existing medical marijuana cultivators, processors and dispensaries, enabling the sale of cannabis to adults aged 21 and over. Adult use sales officially started on August 6, 2024, including at retail outlets operated by Vext and its subsidiaries. Ohio's adult-use ballot initiative outlined the following: adults 21 and over will be able to possess up to 2.5 ounces of marijuana (with no more than 15 grams being marijuana concentrate). Non-medical consumers may purchase no more than ten whole day units of cannabis combined across all forms pursuant to the Ohio Administrative Code. Home cultivation of a limited number

of plants will also be permitted. Pursuant to O.R.C. 3780.10, the Division will review the number of cannabis operator licenses 24 months after the first issuance of an adult use operator license, and on a biannual basis thereafter. Market participants are currently operating under the existing medical marijuana program rules. On August 2, 2024, The Division issued proposed rules for adult-use operations to the joint committee on agency rule review, including provisions related to ownership and dispensary operations and security. Vext and its subsidiaries are closely monitoring the development of Ohio's adult-use regulations and are poised to adapt operations accordingly.

## **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 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 could also 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 adult-use or medical 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 June 30, 2024, the Company's assets and revenues are primarily attributable to the medical marijuana use in the State of Arizona and the State of Ohio.

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 has received legal advice from U.S. attorney's regarding compliance with applicable state regulatory frameworks and potential exposure and implications arising from U.S. federal law. 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 Risks**

The following are certain additional risk factors relating to the business of the Company. These risks and uncertainties are not the only ones facing the Company. Additional risks and uncertainties, including those present in the Company's annual information form for the year ended December 31, 2019, those described in the Company's other continuous disclosure documents filed on the Company's profile on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca), and those not presently known to the Company or currently deemed immaterial by the Company, may also impair the operations of the Company. If any such risks actually occur, shareholders of the Company could lose all or part of their investment and the business, financial condition, liquidity, results of operations and prospects of the Company could be materially adversely affected and the ability of the Company to implement its growth plans could be adversely affected.

## **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 is 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 third-party service providers**

Third party service providers to the Company may withdraw or suspend their service to the Company under threat of prosecution. Since under US 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, companies that provide goods and/or services to companies engaged in cannabis-related activities may, under threat of federal civil and/or criminal prosecution, suspend or withdraw their services. Any suspension of service and inability to procure goods or services from an alternative source, even on a temporary basis, that causes interruptions in the Company's operations could have a material and adverse effect on the Company's business.

### **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 developing the business and managing 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 people 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 raising 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 financing 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.