

**51-102F3**  
**MATERIAL CHANGE REPORT**

**Item 1**      **Name and Address of Company**

TRANSCANNA HOLDINGS INC. (the “Company”)  
2489 Bellevue Ave, West Vancouver  
British Columbia V7V 1E1

**Item 2**      **Date of Material Change**

November 1, 2021

**Item 3**      **News Release**

The news release was disseminated by Newsfile on November 1, 2021.

**Item 4**      **Summary of Material Change**

TransCanna CEO corporate update.

**Item 5**      **Full Description of Material Change**

**5.1**          **Full Description of Material Change**

CEO Bob Blink provided a corporate update for the Company and its operating subsidiary, Lyfted Farms Inc. (“Lyfted Farms”).

“I have been a passionate cannabis cultivator for decades. I played a key role in the movement to legalize medical marijuana in California in the early 1990’s and have officially been operating as a cultivator and distributor since 1997. I formed Lyfted Farms Inc. when I pivoted from growing medical marijuana to recreational cannabis in 2016. Since Lyfted Farms’ beginning, our core values have remained simple and steadfast: focus on quality product and demonstrate impeccable integrity in our relationships. These values have served us well, culminating in an industry-wide reputation for honesty, integrity, and one of the best quality premium indoor flower on the market,” said Mr. Blink.

“When Lyfted Farms merged under the TransCanna umbrella in 2019, the two companies developed a bold vision of creating the largest multipurpose cannabis operation in California -- the largest cannabis market in the world. And in the Company’s third quarter this year, we have made the biggest strides towards that vision becoming a reality.”

**Recent Milestones**

- Phase 1 construction at Daly Facility complete, with three of the five rooms operational and the last two in the final stages of receiving equipment and system testing
- Introduced a vegetative chamber that has already increased cultivation yield, quality, and efficiency by up to 25%

- Expansion of business offerings including 3<sup>rd</sup> party processing, distribution, cold storage, crop management, processing, and co-branding and white labelling services.
- Recruited an industry recognized Chief Financial Officer, Peter Gregovich

Completion of the first phase of the Daly Facility construction was a huge undertaking that involved the construction of five cultivation rooms spanning 22,500 square feet; processing space for drying, curing and semi-automated trimming; a packaging area with space for automated scaling, pouching, and sealing activities; 11,000 square feet of climate-controlled cold storage space for bulk and retail-ready finished goods; and a secure, enclosed transportation vehicle loading bay area. We want to acknowledge our incredible team for continuously working above and beyond, and generating results in a high-pressure, ever changing work environment. With Phase 1 construction complete, we are well positioned to significantly scale our cultivation output and serve all aspects of the California cannabis industry.

We recently launched cultivation at our Daly Facility and have already produced our first harvest – which was our strongest crop to-date. Currently, three of the five new cultivation rooms are now operational, with the final two awaiting equipment and system testing. Once we get to full capacity, each of these five cultivation rooms will have the capacity to produce five harvests each per year. We also introduced a vegetative chamber that has already increased cultivation yield, quality, and efficiency by up to 25%.

We have also launched new verticals, and have begun offering services to 3<sup>rd</sup> party growers throughout the state including distribution, cold storage, crop management, processing, and co-branding and white labelling services. Our processing services (drying, curing, trimming) act as a strategic business funnel, bringing in flower from growers around the state who can then benefit from the myriad of other services we can offer them – such as cold storage, packaging and distribution.

We have decided to bypass the lengthy and difficult process of obtaining a manufacturing license to instead leverage an existing close relationship we have with a premium cannabis extraction and manufacturing company. We plan on collaborating with them and leveraging their license and expertise in order to offer our growing client list a full suite of manufacturing services including the production of live and cured resin pens, cartridges, and concentrates. This will be especially useful for our greenhouse clients who are growing the types of high terpene strains that are best suited for concentrate manufacturing.

We hired an industry recognized Chief Financial Officer, Peter Gregovich. Peter brings over 25 years of C-suite financial leadership experience and is respected in the industry for having built the corporate infrastructure to support massive growth in transaction volume for the leading cannabis delivery platform Eaze. He is already proving himself indispensable with his financial models and forecasts which directly and strategically inform all our decisions.

Additionally, we have promoted Alan Applonie from General Manager to COO. Alan has increased production at our Jerusalem facility by 150%, oversaw Phase 1 construction at the Daly Facility, migrated operations from cash payments to real banking, and implemented HR management systems and KPIs for every department. He continues to drive our efficient, organized, and success-oriented workplace culture throughout the organization.

## **Timing and Targets**

While we have achieved these significant milestones, we admittedly hit them nine months later than we

had planned, and the delay in getting the new Daly Facility up and running, combined with other factors that I will detail below, means that we will not be hitting our previously stated 2021 gross revenue targets of CAD \$55M to CAD \$75M, as we had ambitiously set out to achieve a year ago.

A number of circumstances contributed to the delays, including a marked delay in obtaining and then accessing funds for the construction loan we required in order to commence Phase 1 construction. We took extra care in due diligence when sourcing the loan required to complete Phase 1 in order to secure the most favorable terms. And after we successfully closed on the loan, there were delays in accessing the funds due to the restrictive rules and regulations surrounding financing and cannabis businesses.

COVID-19 was also a factor in delaying our progress on the Daly Facility. While the Company was fortunate enough not to be directly impacted by the COVID-19 pandemic, we were indirectly impacted when many of our suppliers, subcontractors, and other service providers were hit with cases of COVID-19 amongst their team, thus impacting their ability to provide services within the timeframes originally quoted.

As well, our region has been and continues to experience industry-wide shortages of qualified tradespeople, electricians, HVAC installers and technicians, and general construction staff -- all which we required to execute on Phase 1 construction. Additionally, there were global supply chain shortages and delays on equipment and materials that we required in order to build out our new Daly Facility.

Due to the factors mentioned above, our 2021 fiscal year forecast is now \$4.5M CAD, with an estimated \$2.2M CAD alone coming from this current fourth quarter, just as we begin to see operations come online at our new Daly Facility. In addition to the overall delay in getting the new Facility up and running, our distribution business was impacted by the California wildfires that damaged the crops of our outdoor farming clients. As a result, and due to limited human resources, we decided to temporarily suspend our distribution operations out of our original facility, and focus primarily on cultivation, which is our highest margin activity, and on getting the Daly Facility up and running, which we believe will pay off tremendously in the long run. We have since relaunched our distribution business out of the Daly Facility, and that vertical alone is on track to generate approximately \$1.3M this fourth quarter.

While I understand how our revised 2021 targets will come as a disappointment to many, I want to assure you that we have persevered over the biggest hurdle of getting the Daly Facility up and running, and we are already seeing the fruits of that labor pay off with our fourth quarter progress, which is on track to be one of our strongest quarters yet. Our core values of nurturing relationships and cultivating the best premium flower remain the foundation of our business, and our decades-old allies in the industry are eager to benefit from our services and expertise as they come online and to see the Daly Facility become the trusted, full service facility it was designed for. With our premium indoor cultivation ramping up, our new processing services, and our distribution expansion, we are strategically positioned to be the one-stop-shop for the best products and services in California cannabis.

## **Industry Developments**

“In all my years in cannabis, this past year has demonstrated the biggest progress on a cultural, consumer, and political level. The Company is beginning to see an increase in M&A activity in the space, in anticipation of legalization at the federal level, and we expect that to explode post-legalization, which I believe to be inevitable. The timing could not be better for TransCanna.” said Blink.

During the COVID-19 crisis, cannabis businesses were deemed ‘essential’ by the State of California.

Locally in our operational hometown of Modesto, California, the municipal government launched the nation's first ever cannabis tourism campaign (prominently featuring Lyfted Farms!). And federally, we are seeing promising real-time progress with the Secure and Fair Enforcement or SAFE Banking Act, which passed through Congress in April and is waiting for a vote in The Senate. This Act will ease the banking and insurance pressures that have been holding cannabis businesses back, stimulating a surge in growth and activity.

## **Going Forward**

Our number one priority is to max out our new capabilities at our Daly Facility and to create that one-stop-shop for cannabis growers state-wide that we have been working towards.

We firmly believe that by continuing to focus on cultivating premium quality indoor flower, and by leveraging, nourishing, and growing our relationships with cultivators across the state, we can be the largest and most powerful vertically integrated cannabis operation in California. And dominating the California market will strongly position us for expansion into other states, once the national market opens up.

### **5.2 Disclosure for Restructuring Transactions**

N/A

### **Item 6 Reliance on subsection 7.1(2) or (3) of National Instrument 51-102**

N/A

### **Item 7 Omitted Information**

None

### **Item 8 Officer**

Stephanie Wesik, President

### **Item 9 Date of Report**

November 1, 2021