

**TRANSCANNA HOLDINGS INC.**  
**MANAGEMENT DISCUSSION & ANALYSIS**  
**OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**  
**For the Nine Months Ended August 31, 2022 and August 31, 2021**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis, prepared by management (the "**MD&A**"), reviews the financial condition and results of operations for the nine months ended August 31, 2022 and August 31, 2021 of TransCanna Holdings Inc. (the "**Company**" or "**TransCanna**"). This discussion provides management's analysis of the Company's historical financial and operating results and provides estimates of the Company's future financial and operating performance based on information that is currently available. This discussion contains forward-looking statements that involve certain risks and uncertainties. See also "*Cautionary Note Regarding Forward-Looking Statements*" and "*Risk Factors*".

### *Overview*

This MD&A is dated October 31, 2021 and presents the operations of the Company for the nine months ended August 31, 2022 and August 31, 2021. The following information should be read in conjunction with the Company's audited financial statements for the year ended November 30, 2021, together with the notes thereto, prepared by management in accordance with International Financial Reporting Standards and expressed in Canadian Dollars. This MD&A has been prepared by management and reviewed by the audit committee of the board. For the purposes of preparing this MD&A, management, in conjunction with the Board, considers the materiality of information. Information is considered material if: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the common shares; or (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) if it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity. All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting currency of the Company, unless specifically noted.

### *Cautionary Note Regarding Forward-Looking Statements*

This discussion contains "forward-looking information" and may also contain statements that may constitute "forward-looking statements", collectively "forward-looking information", within the meaning of applicable Canadian securities legislation. Such forward-looking information is not representative of historical facts or information or current condition, but instead represent the beliefs and expectations regarding future events about the business and the industry and markets in which TransCanna operates, as well as plans or objectives of management, many of which, by their nature, are inherently uncertain. Generally, such forward-looking information can be identified by the use of terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved".

Management considers the assumptions on which forward-looking information is based to be reasonable at the time the statements were made. Accordingly, actual results could differ materially from those expressed or implied within forward-looking information. The Company's forward-looking statements are subject to risks and uncertainties pertaining to, among other things, competing products, competition, litigation, loss of key personnel, anticipated and unanticipated costs, , reliance on third-party suppliers, manufacturers and contractors, difficulty with product development, the ability of the Company's officers and directors to control matters affecting the Company and its business, environmental regulation, revenue fluctuations, difficulties with forecasts, loss of proprietary information, product acceptance and regulatory environment, including but not limited to those risks and uncertainties discussed under the heading "Risks Factors" in this MD&A and the Company's other filings with securities regulators. The impact of any one risk, uncertainty, or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent, and the Company's future course of action depends on Management's

assessment of all information available at the relevant time. Except to the extent required by law, the Company assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A, whether as a result of new information, future events, or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on the Company's behalf, are expressly qualified in their entirety by these cautionary statements.

## **COMPANY OVERVIEW**

### ***Background***

#### ***Strategically Positioned at the Epicenter of California's \$9B Cannabis Market***

TransCanna Holdings Inc. (the "**Company**" or "**TransCanna**") is a holding company with several wholly-owned subsidiaries operating in the California cannabis market. TransCanna Holdings Inc. was incorporated on October 26, 2017, under the *Business Corporations Act* (British Columbia).

The Company is solely focused, through its US based subsidiaries, on establishing itself as a dominant player in the recreational California cannabis market – the largest cannabis market in the world.

### ***Description of the Business***

TransCanna is a holding company located in West Vancouver, British Columbia. The Company operates through its wholly-owned subsidiaries located in California, USA. As a whole, the subsidiaries operate as a vertically integrated system in the State of California covering most aspects of the cannabis business from seed to sale including cultivation, processing, distribution and crop management. Over the course of 2021 the cannabis industry has faced significant challenges including negative market sentiment in the overall sector, access to capital and above industry average operating costs for insurance, taxes, and financial services. Due to these challenges beginning Q4 2021 through to present, the Company has shifted operations away from being a one-stop-shop service provider to third parties to dedicate its efforts to its highest margin business segment – cultivation and sale of exotic indoor flower.

Predominantly through the Company's wholly owned subsidiary Lyfted Farms Inc., in Q1 '21, Q2 '21 and Q3 '21 respectively the Company produced and sold its own products under the Lyfted Farms brand. Products sold included premium exotic indoor-grown flower, pre-rolled cannabis joints, and concentrates. As of Q4 '21 the Company shifted away from retail sales to focus on bulk flower wholesale. Subsequent to year end, the Company has continued with this focus on bulk wholesale. The Company plans to relaunch retail sales of flower, prerolls and concentrates in 2023 the timing of which will be dependent on market conditions.

Throughout the 2021 fiscal year the Company also provided white-labeling, packaging and wholesale and distribution services to third party customers and partners throughout the State. Through "co-branding" collaboration deals, the Company partners with brands and personalities to produce specific strains or products, leveraging both the prominence and consumer following of the partner-brand and the reputation for quality of Lyfted Farms proprietary premium cannabis strains.

Following the recent capital improvements and the current build-out of the new facility, the Company plans on greatly expanding its cultivation output.

The Company's head office is located at 2489 Bellevue Avenue, West Vancouver, BC V7V 1E1, Canada.

The Company's common shares are listed on the CSE under the ticker symbol "TCAN" and on the Borse Frankfurt under "TH8".

## ***Vision, Mission and Values***

### **Mission**

TransCanna's mission is to act as a one-stop shop for third party cannabis growers by providing them with the highest quality and most streamlined crop cultivation, processing, manufacturing, storage and distribution services available in California today. The Company does this while concurrently growing its existing core business as master cultivators of premium indoor exotic cannabis under the Lyfted Farms brand.

### **Vision**

TransCanna's vision is to be one of California's largest and most vertically integrated cannabis conglomerates, serving all aspects of the California cannabis industry.

### **Values**

TransCanna operates by the following guiding principles:

***Leadership & Innovation*** - Make bold moves and drive industry growth and innovation through leading by example. Be the first in class in quality. Constantly innovate on new genetics, products, and services.

***Authenticity*** – Stay true to the Company's founding roots. Stay true to customers, partners and stakeholders. Honour, respect and celebrate authentic cannabis sub-cultures.

***Collaboration*** - Rising tides lift all ships. Through strategic collaboration, create something that is bigger and greater than the sum of its parts. Create win-win opportunities across industry segments.

### ***Strategic Priorities***

#### **1. Increase Cultivation Capacity**

The Company's original and core business is the cultivation of premium exotic indoor flower. In addition to its popularity among retailers and consumers, flower represents the biggest revenue driver, and most profitable product for the Company with the most attractive margins, averaging around 80% before overhead allocations. In order to grow revenue and maintain attractive margins, Management deemed increasing cultivation capacity paramount. In 2020, the Company maximized cultivation capacity at an existing facility ('Jerusalem') while investing significant time, capital, and energy to lay the groundwork for new cultivation space in a new facility ('Daly'). When the construction of Phases 1 and 2 (of Four Phases) at Daly is complete, in combination with the Jerusalem Court Facility the Company will have a total of approximately 49,245 sq ft of dedicated cultivation space. Over the course of 2021 the Company increased cultivation capacity to 19,361 sq ft of dedicated cultivation space. In 2022 the Company's primary focus is to complete Phases 1 and 2 to take cultivation space to 49,245 sq ft.

#### **2. Nurture and Grow Industry Relationships**

In anticipation of the Company's expanded output, Management has been nurturing existing key relationships and forming new ones in order to secure off-take agreement for bulk wholesale contracts. The

Company continues to nurture retail relationships so that it can once again expand its retail footprint and grow brand recognition when retail sales are relaunched. On the branding side this includes collaborations, partnerships and co-branding remain the pillar of the Lyfted Brands marketing strategy. The Company strategically partners with popular brands and personalities with extremely loyal fan bases in subcultures where cannabis consumption is prominent, such as drag racing and hip hop. In these deals, the personality leverages the quality of Lyfted Farms premium flower, while Lyfted benefits from the built-in fame and following of the personality.

## *Facilities and Licenses*

### **Jerusalem Court**



### *Overview*

'Jerusalem Court' refers to the facilities located at 5271 and 5255 Jerusalem Court, Modesto, California. In 2020, the vast majority of the Company's business and revenue-generating activities were focused at this 12,000 square foot facility. Indoor cultivation and distribution services at Jerusalem Court generated \$6,957,336 in revenue for the Company in 2020.

The buildings, comprising 12,000 square feet in total, are leased directly from a Lyfted Farms shareholder – Mr. William Maurer. The buildings are leased by the Company under a five-year lease term expiring November 3, 2024 with the option to renew for an additional 5 year term.

Between December 2019 and November 2020, the Company invested \$736,624 worth of capital improvements into Jerusalem Court.

Improvements included:

- Retrofitting 2 operational cultivation rooms to bring them to Food Grade standards
- Building out 3 additional cultivation rooms
- Building out a Nursery Mother Plant room and a Cloning Propagation Room
- Building out a vegetative room under the Nursery License
- Installing Security Fencing, Security Cameras and Onsite Security Guard

## ***Licenses***

Business activities at Jerusalem Court operate under three important licenses granted by the State of California.

The licenses are as follows:

**Nursery License** – This license permits the Company to propagate genetics and create plant clones for flower production (Issued May 2019 to May 2023)

**Cultivation License** – This license allows for indoor cannabis cultivation activities. (Issued March 2019 to March 2023)

**Type 11 Distribution License** – This license permits cannabis fulfillment, transport, packaging, sales and manufacturing activities. Manufacturing includes producing pre-rolled cannabis joints. (Issued July 2019 to July 2023)

## **Daly Facility**



## ***Overview***

The ‘Daly Facility’ is a 196,000 square foot facility on 5.5 acres of land located on Daly Avenue in Modesto, California.

TransCanna purchased the property in April 2019 for US\$14.75M in cash with a vendor take-back mortgage of US\$6.75M.

In 2020, the Company conducted and expanded cultivation and nursery activities to maximum capacity at the Jerusalem Facility, while concurrently planning and executing the initial stages of the build-out of the Daly Facility, which will serve as the center of the TransCanna operations. In 2021, the Company was able to build out an initial 13,111 of cultivation space at the Daly Facility. It is a top strategic priority for the Company to increase this footprint to 42,995 sq ft by YE 2022.

Operations at Daly will include cultivation, distribution, nursery, and processing. All crops from the Company’s crop management service contracts also flow through the Daly Facility.

Provide update of refinancing and construction....

Cultivation and nursery activities will continue at the 12,000 sq foot Jerusalem Facility, with additional cultivation output and distribution services shifting to the Daly Facility as construction progresses and capacity is increased.

The Company purchased the Daly Facility based on strategic location and value. The property sits 4 minutes from Interstate 132, and 7 minutes away from Highway 99 with direct access to the San Francisco Bay Area and the greater Los Angeles Region. It is situated directly south of the ‘Emerald Triangle’ —the largest cannabis producing region in the United States— and just north of the California’s largest cannabis consuming metroplexes of San Francisco, Los Angeles, and San Diego.



Modesto also has the most inexpensive power rates and among the lowest labor rates in the state of California providing TransCanna with the ability further push their margins. Furthermore, just prior to TransCanna’s acquisition of the property, the seller, a licensed general contractor, performed \$8.9M worth of capital improvements including a new roof, a premium HVAC and refrigeration system, and upgrades and backups to the electrical system, saving the Company millions in renovation costs.

### **Licenses**

Business activities at the Daly Facility will operate under licenses granted by the State of California.

The licenses are as follows:

**Cultivation License** – This license allows for indoor cannabis cultivation activities. (Granted April 2021 to April 2023)

**Type 11 Distribution License** – This license permits cannabis fulfillment, transport, packaging, sales and manufacturing activities. Manufacturing includes producing pre-rolled cannabis joints. (Granted, July 2020 to July 2022). To be reactivated upon completion of Phase 1 and 2 construction.

**Processing License** – This license allows for trimming, drying, curing, grading, or packaging of cannabis and nonmanufactured cannabis products. (Granted July 2021 to July 2022) To be reactivated upon completion of Phase 1 and 2 construction.



## *Principal Products and Services*



### **Lyfted Farms Products**

**Flower** — Lyfted Farms’ most popular product is its premium exotic indoor flower. The brand is respected for its unique, creative and potent proprietary strains. In June 2019 Lyfted Farms was acknowledged in a Forbes article for the quality of their genetics. In February 2021, leading cannabis information website Leafly independently endorsed the Company’s proprietary ‘Garlic Noodles’ strain in its “Top Cannabis Strains” list. Brands and personalities specifically choose to partner with Lyfted Farms for white labelling and co-branding deals because of the reputed quality of Lyfted Farms cannabis flower.

**Pre-rolls** — The Type 11 Distribution License empowers the Company to manufacture pre-rolled joints, which are consumer-ready and eliminate the hassle of grinding, rolling, and sealing cannabis flower into a joint.

**Concentrates** — Concentrates, resins, oils, distillates and extracts are produced by isolating and extracting active ingredients in cannabis like terpenes and cannabinoids from the plant matter. Subsequent to the period in April 2021, Lyfted Farms produced an advanced form of a concentrate product called ‘Lyfted Farms Live Resin Pods’. The Pods contain resin that is extracted from living plant trimmings that offers the user the entirety of the full-spectrum of the cannabinoid and terpene experience in a concentrated form. The Pods are used with vape pens and their entree onto the market marks Lyfted Farm’s introduction to the vape pen consumer – a growing segment of the cannabis market.

### **Services by Market Segment**

#### ***Genetics Development Program***

One of the key programs that Lyfted Farms incorporates is its Cannabis Genetic Development Program. This leads to a unique genetic “bank” that keeps the Company ahead of the curve when releasing new strains and product SKU’s. Through decades of experience and a lot of trial and error, the Lyfted Nursery team has been very successful in creating new genetics that appeal to the greater cannabis consumer. This is important because genetics is the

lifeblood of any successful cannabis company. This allows us to be self-reliant and places us in the top tier of cannabis cultivators.

Having the ability to breed and identify unique phenotypes is an art that the Lyfted Farms team has succeeded in for decades. The competitive advantage is being able to identify unique phenotypes from newly developed genetics that give the company control of all the product SKU's downstream from the cultivation. This leads into other product SKU's, such as concentrate, vape pens and other products that other companies will never have access to. No two strains are alike, and ours are always ahead of the curve.

### ***Cultivation***

Cannabis cultivation of premium exotic indoor flower has been, and will continue to be, the core business and key revenue driver for TransCanna. The Company will continue to innovate on new genetic strains and is pushing to greatly expand cultivation output in 2021. Phase 1 of construction of the Company's new Daly facility alone will increase cultivation capacity by 400%. In addition to producing its own flower under the Lyfted Farms brand, the Company offers third party brand partners the opportunity to co-brand premium flower using Lyfted Farms genetics and cultivation expertise.

### ***Distribution***

At its new Daly Facility, TransCanna has the ability to offer storage, distribution and wholesaling services to third party clients. Under its Distributor Type 11 License, the Company is able to transport cannabis goods between stakeholders, and ultimately place product in stores.

### ***Processing***

In April 2021, the Company was awarded a rare Processor License by the State of California. In 2020, only 152 Processor Licenses were issued, compared to 6,083 Cultivation and Nursery Licenses. The Processor License gives the Company the ability to offer trimming, drying, curing, grading, packaging and labelling of cannabis for third party growers. The new service is strategic, as the vast majority of growers only hold cultivation licenses, meaning many of them will need to seek off-site processing services from companies such as TransCanna.

### **Products and Sales**

The company has made a fundamental shift to focus on selling its premium high-quality product via a wholesale model.

## **FINANCIAL PERFORMANCE**

The following discussion of the Company's financial performance is based on the audited consolidated financial statements for the years ended November 30, 2021, 2020, and 2019 which were prepared in accordance with IFRS.

See "Results of Operations for the Years ended November 30, 2021 and 2020 for additional details. The selected consolidated financial information set out below may not be indicative of TransCanna's future performance:

***Selected Annual Information***

	Year ended November 30, 2021	Year ended November 30, 2020	Year ended November 30, 2019
Working capital	\$ (18,180,989)	\$ (1,809,118)	\$ (2,592,830)
Total assets	25,644,774	26,471,398	32,769,866
License	-	298,365	454,981
Total liabilities	22,385,930	17,132,937	16,143,909
Share capital and reserves	3,258,844	9,338,461	16,625,957
Deficit	(58,355,128)	(45,262,470)	(28,132,613)

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED AUGUST 31, 2022 AND AUGUST 31, 2021**

***Overall Performance***

The statements of financial position as of August 31, 2022, indicated a cash position of \$7,958,176 (2021 – \$807,607) and total current assets of \$9,097,208 (2021 – \$4,251,237).

The long-term assets of the Company were represented by the Modesto property with a value of \$21,868,777, which includes the building, land, and leasehold improvements, and the right-of-use asset with a value of \$503,360.

At August 31, 2022, current liabilities totaled \$8,020,903 (2021 – \$6,364,456) and included \$3,055,861 in accounts payable and accrued liabilities (2021 – \$3,515,189) and \$2,856,733 in loans payable (2021 - \$1,056,414).

At August 31, 2022, the Company had a working capital surplus of \$1,076,305 (2021 – deficiency of \$2,113,219). Management's short-term plans are to fund the Company's day-to-day operations through equity or debt financing.

Shareholders' equity was comprised of share capital of \$57,391,029 (2021 - \$51,430,730), reserves of \$9,882,182 (2021 - \$8,468,813), a deficit of \$65,271,201 (2021 - \$51,890,717) and accumulated other comprehensive loss of \$59,650 (2021 –\$806,807) for a net shareholder equity of \$2,061,660 (2021 - \$8,793,633).

***Comparison of Results of Operations for the nine months ended August 31, 2022 and August 31, 2021***

**Net Loss**

During the nine months ended August 31, 2022, the Company reported a net loss of \$6,916,073 (\$0.14 loss per share). The largest items that contributed to the Company's net loss during the year included salaries and benefits, rent and utilities, and share-based compensation.

During the nine months ended August 31, 2021, the Company reported a net loss of \$6,528,247 (\$0.12 loss per share). The largest items that contributed to the Company's net loss during the year included salaries and benefits, investor relations, and share-based compensation.

## Revenue

During the nine months ended August 31, 2022, the Company earned \$1,764,040 in product revenue and \$426,299 in service revenue compared to \$2,175,479 earned in product revenue and \$125,290 in service revenue in the previous nine months ended August 31, 2021.

## Operating Expenses

During the nine months ended August 31, 2022, the Company recorded operating expenses of \$4,822,475 (2021 - \$4,926,948). The largest factors contributing to operating expenses during the nine months ended August 31, 2022 were: salaries and benefits of \$1,474,270 (2021 - \$990,152), share-based compensation of \$240,741 (2021 - \$917,589), and rent and utilities of \$492,954 (2021 - \$119,386). During the period, the Company reduced, its investor relations, advertising and promotional activities while still trying to maintain proper awareness in a highly competitive environment.

As the Company's current operations do not generate sufficient revenues, the Company will continue relying on equity and debt financing in order to meet its ongoing day-to-day operating requirements. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time, or, if available, that it can be obtained on terms satisfactory to the Company.

A fundamental shift for the company will be to focus on selling its premium high-quality product via a wholesale model. This decision was made to ensure not only immediate payment as opposed to the 90 days plus retail route, but also to work with the bigger brands who now have the effective distribution into the California market.

## *Summary of Quarterly Results*

The following tables set forth selected financial information of the Company for the eight most recently completed quarters. This information is derived from unaudited quarterly financial statements and audited annual financial statements prepared by management in accordance with IFRS during fiscal 2021 and 2020.

	<b>August 31, 2021</b>	<b>May 31, 2022</b>	<b>February 28, 2022</b>	<b>November 30, 2021</b>
Revenue (loss) net of Cost	\$ 122,083	\$ 267,866	\$ 24,861	\$ (1,257,524)
Net Loss	\$ (6,916,073)	\$ (4,602,040)	\$ (1,895,963)	\$ (6,637,402)
Loss per Share	\$ (0.09)	\$ (0.08)	\$ (0.03)	\$ (0.23)
Total Assets	\$ 32,506,299	\$ 24,501,802	\$ 25,193,360	\$ 25,644,774
Working Capital (Deficit)	\$ (1,076,305)	\$ (18,606,579)	\$ (19,610,701)	\$ (18,180,989)

	<b>August 31, 2021</b>	<b>May 31, 2021</b>	<b>February 28 2021</b>	<b>November 30, 2020</b>
Revenue (loss) net of Cost	\$ 41,529	\$ 29,405	\$ 181,166	\$ 99,334
Net Loss	\$ 1,158,789	\$ (2,480,682)	\$ (5,133,363)	\$ 7,545,480
Loss per Share	\$ 0.02	\$ (0.05)	\$ (0.10)	\$ 0.20
Total Assets	\$ 28,791,013	\$ 28,015,599	\$ 25,760,752	\$ 26,471,398
Working Capital (Deficit)	\$ (2,113,219)	\$ 1,760,167	\$ (2,490,873)	\$ (1,809,118)

### ***Other Contracts and Activity***

On June 10, 2022, the Company successfully completed the filing of their condensed consolidated financial statements for the three month period ended February 28, 2022, and as such were able to lift the Management Cease Trade Order in accordance with the British Columbia Securities Commission's requisite guidelines.

On July 29, 2022 the Company entered into a definitive loan agreement with Pelorus Equity Group, a cannabis-focused real estate investment trust (the "**Lender**"), for a secured loan of up to USD \$15,808,000.00 (the "**Loan**") for a term of forty-eight (48) months. The Loan is secured against substantially all of the assets of the Company and certain subsidiaries. Proceeds of the Loan will be advanced upon the satisfaction of certain conditions precedent.

The Company also entered into a financing arrangement with Alpha Blue Ocean ("**ABO**") with an up to \$9,500,000 financing arrangement (the "**ABO Commitment**"), pursuant to which the Company has entered into an issuance agreement dated July 29, 2022 (the "**Issuance Agreement**") with Global Tech Opportunities 2, an investment fund managed by ABO (the "**Investor**"), that provides for the issuance of senior unsecured convertible debentures (the "**Convertible Debentures**") in the aggregate principal amount of up to \$9,500,000 (the "**Convertible Debenture Financing**"), each at a subscription price of 95% of the aggregate principal amount thereof.

Pursuant to the Convertible Debenture Financing, the Company drew down the first Tranche (as defined below) of the ABO Commitment and issued a Convertible Debenture in an aggregate principal amount of \$780,000 for gross proceeds of \$741,000 and issued Convertible Debentures to the Investor in an aggregate principal amount of \$500,000 as a commitment fee (the "**Commitment Fee Debentures**").

The net proceeds of the Loan and Convertible Debenture Financing will be used primarily for the purposes of refinancing and developing the Company's property, construction costs, and paying interest on existing debt.

Pursuant to a business services agreement for capital markets advisory services dated January 13, 2022 between the Company and Luminous Capital Inc. ("**Luminous**"), the Company issued 16,386,778 common share purchase warrants (the "**Luminous Warrants**") at a price of \$0.12 per share. Common shares issuable upon exercise of the Luminous Warrants will be subject to resale restrictions of four months and a day.

The Company also settled debt of an aggregate of \$1,842,706 of debt, of which \$398,182 is held by insiders of the Company, through the issuance of an aggregate of 18,427,061 units (each, a "**Unit**") of the Company (the "**Debt Settlement**") at a price of \$0.10 per Unit. Each Unit is comprised of one (1) common share in the capital of the Company (each, a "**Common Share**") and one (1) Common Share purchase warrant (each, a "**Debt Settlement Warrant**"). Each Debt Settlement Warrant will entitle the holder thereof to purchase one (1) additional Common Share (a "**Warrant Share**") at a price of \$0.15 for a period of two years.

The Common Shares comprising the Units and issuable upon exercise of Debt Settlement Warrants are subject to a hold period of four months and one day.

### **The Loan**

The Loan accrues interest at a rate of 14% per annum, provided that after eighteen (18) months, given that certain requirements are met, the interest rate will be reduced to 12% per annum. Upon an event of default, the interest rate increases to 19% per annum.

The Loan is subject to interest reserves, certain guarantees and defaults, a pledge agreement, a security agreement, subordination agreements, and guarantee of completion.

In connection with the Loan, the Company issued, to an affiliate of the Lender, warrants to purchase up to 51,208,682 Common Shares of the Company (the “**Loan Warrants**”). Each Loan Warrant entitles the Lender to purchase a Common Share at a price of \$0.12 (the “**Exercise Price**”), representing the closing price of the Company’s Common Shares on the Canadian Securities Exchange (the “**Exchange**”) on July 28, 2022, for a period of five years. No Common Shares may be issued on exercise of the Loan Warrants if the issue of such shares would cause the holder (and any person acting jointly and in concert with the holder) from holding beneficial ownership or having control or direction over greater than 9.9% of the outstanding Common Shares.

The Loan Warrants provides the holder thereof with downward price protection such that, subject to the approval of the Exchange, the Exercise Price will be reduced to the issue price of any Common Shares, or securities convertible into Common Shares, issued after the date hereof. The Loan Warrants also grant the holder thereof piggy back registration rights in the event the Company determines to register any Common Shares under the United States *Securities Act* or qualify any Common Shares for distribution pursuant to a prospectus prepared and filed in accordance with Canadian securities laws.

Finally, the Loan Warrants contain a put and call option pursuant to which (i) upon prepayment or maturity of the Loan, the Company has the option (the “**Call Option**”) to purchase the Loan Warrants at a purchase price equal to the aggregate exercise price of the remaining Loan Warrants plus a 30% premium thereto (the “**Call Price**”); and (ii) if the Company does not exercise the Call Option, the holder has the option upon prepayment or maturity to require the Company to purchase the Loan Warrants at a purchase price equal to the aggregate exercise price of the remaining Loan Warrants less a 30% premium thereto. Upon a default of the Loan which results in an acceleration of the Loan, the Call Option shall be deemed to have been exercised and the Call Price shall be immediately due and payable by the Company to the Lender.

The Loan Warrants and any Common Shares issuable upon exercise thereof are subject to a hold period of four months and one day.

### **The Convertible Debenture Financing**

The Investor has committed to fund the Company up to \$9,500,000 pursuant to the Issuance Agreement by subscribing for \$10,500,000 aggregate principal amount of Convertible Debentures (inclusive of the Commitment Fee Debentures), to be issued in thirty-eight (38) tranches (each a, “**Tranche**”), from time to time, during the 48 month period (the “**Commitment Period**”), subject to the right of the Investor to require the Company to draw down up to ten Tranches during the Commitment Period and further provided that the Investor may delay any subscription requested by the Company, if the Investor’s holdings of Common Shares of the Company (on an as-if-converted, undiluted basis and after giving effect to the subsequent Tranche) would exceed 5% of then issued and outstanding Common Shares of the Company (undiluted).

The obligations of the Investor to subscribe for Convertible Debentures upon receipt of a draw down notice is subject to the satisfaction of the conditions precedent set forth in the Issuance Agreement.

Concurrently with execution of the Issuance Agreement, the Company (i) drew down the first Tranche and issued to the Investor \$780,000 aggregate principal amount of Convertible Debentures for gross subscription proceeds to the Company of \$721,000; (ii) made a one-time grant to the Investor of 13,194,414 Common Share purchase warrants of the Company having an exercise price of \$0.136 per share, subject to adjustment in accordance with their terms, for a period of five years (the “**ABO Warrants**”); and (iii) issued the Commitment Fee Debentures, in payment of a commitment fee of \$500,000.

Each Convertible Debenture matures 12 months from the date of issue (the “**Maturity Date**”). Each Convertible Debenture is convertible upon notice from the Investor delivered at any time prior to the Maturity Date and

automatically on the Maturity Date, in each case, at the lowest daily volume-weighted average price observed over a period of fifteen (15) trading days immediately preceding the date of the relevant conversion notice (or, where no conversion notice is given, the relevant maturity date of the Convertible Debentures) (the “**Conversion Price**”).

In the event that the higher of the last closing price of the Common Shares on the Exchange prior to delivery of the relevant conversion notice by the Investor to the Company and the minimum price permitted under the policies of the Exchange (the "**Adjusted Conversion Price**") is greater than the Conversion Price, the Company will be required to pay the Investor a make-whole amount to compensate the Investor, in cash and calculated in accordance with the formula provided for in the Issuance Agreement, for the value of the Common Shares that would have been issuable upon conversion, but for the difference between the Conversion Price and the Adjusted Conversion Price (each, a "**Make-Whole Amount**").

Subject to the terms thereof, each of the Convertible Debentures and the ABO Warrants provides that the number of Common Shares that the Investor may acquire upon conversion of the Convertible Debentures or exercise of the ABO Warrants shall be limited to ensure that (i) the Investor (and any person acting jointly and in concert with the Investor) will not hold beneficial ownership or having control or direction over greater than 9.9% of the outstanding Common Shares after giving effect to the conversion or exercise or issuance, as applicable, without the insiders of the Investor having filed and cleared personal information forms with the Exchange; or (ii) the Investor (and any person acting jointly and in concert with the Investor) will not hold beneficial ownership or having control or direction over greater than 19.9% of the outstanding Common Shares, after giving effect to the conversion, exercise or issuance, as applicable.

Upon the occurrence of an event of default or a change of control, the Investor is entitled to require that the Company redeem all then outstanding Convertible Debentures, in cash, at a redemption price equal to 120% of the outstanding principal.

The Common Shares issuable upon conversion of the Convertible Debentures and the Common Shares issuable upon exercise of the ABO Warrants shall be subject to a hold period of four months and one day from the date of issuance; however, such securities shall immediately be exchanged for freely tradeable securities delivered by way of a securities lending arrangement among the Investor and shareholders of the Company.

### **Repricing of Convertible Debentures**

Effective July 22, 2022, each Existing Debenture is now convertible into units at a price of \$0.10 per unit, with each unit being comprised of one common share and one common share purchase warrant (each “**Repriced Warrant**”). Each Repriced Warrant entitles the holder to purchase one Common Share at a price of \$0.15 per share for a period of two years, expiring September 30, 2022, however, in accordance with the policies of the Exchange, if, at any time after July 22, 2022, the closing price of the Company's Common Shares, as quoted by the Exchange, is equal to or greater than CAD\$0.19 for ten consecutive trading days, the expiration date of the Warrants will automatically be accelerated to the date that is 30 calendar days after the date of such ten consecutive trading day period.

All but 3 of the holders of the Existing Debentures has delivered written consents to the Repricing. Those remaining holders of Existing Debentures may deliver a consent to the Repricing any time prior to the maturity date of the Existing Debentures and convert his or her Existing Debentures at the reduced price or hold the Existing Debentures to maturity for repayment in accordance with the terms thereof.

As of today, holders of an aggregate of \$879,135 principal amount of Existing Debentures have converted Existing Debentures for the issuance of an aggregate of 8,791,352 Common Shares and 8,791,352 Repriced Warrants.

### **Insider Participation**

Each of the Investor, the Lender and Luminous are arm's length to the Company and to each other.

Related parties of the Company, however, will acquire 3,981,820 Units on conversion of \$398,182 of indebtedness pursuant to the Debt Settlement and \$115,600 aggregate principal amount of Repriced Existing Debentures are held by Insiders. As result, each of the Debt Settlement and Repricing is considered a "related party transaction" as such term is defined under Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"). The Company is relying on exemptions from the formal valuation and minority shareholder approval requirements provided under MI 61-101 on the basis that the value of the indebtedness held by related parties to be settled in Units and the aggregate principal amount of Repriced Existing Debentures held by related parties do not exceed 25% of the fair market value of the Company's market capitalization.

The Company did not file a material change report more than 21 days before the expected closing of the Debt Settlement and effective date of the Repricing as required by MI 61-101 because the announcement and closing or effective date, respectively less than 21 days apart.

### **National Instrument 62-103 – *The Early Warning System and Related Take-over Bid and Insider Reporting Issues***

Pursuant to closing of the first Tranche, the Investor (P.O. Box 2775, 67 Fort Street, Artemis House, Grand Cayman, KY1-1111, Cayman Islands) acquired an aggregate principal amount of \$1,330,000 Convertible Debentures (inclusive of the Commitment Fee Debentures) and 13,194,414 ABO Warrants. Each ABO Warrant is exercisable at an exercise price of \$0.136 per underlying Common Share, subject to adjustment in accordance with the terms of the certificate representing the ABO Warrants.

Prior to closing of the first Tranche, the Investor beneficially owned or controlled no securities of the Company. Prior to closing of the first Tranche, and assuming that there were 105,623,015 Common Shares issued and outstanding, the Investor exercised control and direction over Securities representing nil percent of the issued and outstanding Common Shares on a non-diluted basis and approximately nil percent of the issued and outstanding Common Shares on a partially diluted basis, assuming the conversion of the Convertible Debentures and the ABO Warrants. Immediately following the closing of the first Tranche, the Investor holds 13,194,414 ABO Warrants and Convertible Debentures in the principal amount of \$1,330,000.

The Convertible Debentures were acquired, in the ordinary course of business, for investment purposes only and pursuant to the terms of the Issuance Agreement, pursuant to which the Investor is expected to acquire control and direction over additional convertible debentures as further Tranches close and Common Shares upon the conversion thereof.

ABO Infinium Americas Opco Ltd. exercises control or direction over the Convertible Debentures and ABO Warrants in its capacity as investment manager. However, the Investor beneficially owns the securities. This investment will be reviewed on a continuing basis and ABO Infinium Americas Opco Ltd., on behalf of the Investor, may further increase or decrease its ownership, control or direction over securities of the Company depending on market conditions, reformulation of plans and/or other relevant factors.

An alternative monthly report will be filed by ABO Infinium Americas Opco Ltd. in accordance with applicable securities laws and will be available on SEDAR at [www.sedar.com](http://www.sedar.com) or may be obtained directly from the Company upon request at [info@transcanna.com](mailto:info@transcanna.com).

The securities offered have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration



requirements. This news release shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the securities in any State in which such offer, solicitation or sale would be unlawful.

### ***Liquidity and Capital Resources***

As at August 31, 2022, the Company had \$7,958,176 in cash and cash equivalents, a working capital surplus of \$1,076,305. The Company's share capital was \$57,391,029 representing 78,404,602 common shares issued and reserves of \$9,882,182. As at August 31, 2022, the Company had accumulated a deficit of \$65,271,201 and accumulated other comprehensive income of \$59,650.

As at August 31, 2021, the Company had \$807,607 in cash and cash equivalents, a working capital deficit of \$2,113,219. The Company's share capital was \$51,430,730 representing 53,333,204 common shares issued and reserves of \$8,468,813. As at August 31, 2021, the Company had accumulated a deficit of \$51,890,717 and accumulated other comprehensive loss of \$806,807.

The Company is dependent on the equity markets and lending markets as its sources of operating capital. Until the Company is able to create revenue from the main business activities, the Company will have to continue to rely on equity and debt financing. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

### ***Contractual Obligations***

A summary of the Company's contractual obligations at August 31, 2022, is detailed in the table below.

<b>As at August 31, 2022</b>	<b>Borrowings</b>	<b>Lease liabilities</b>	<b>TOTAL</b>
Less than one year	\$ 15,087,095	\$ 111,837	\$ 15,198,932
1 to 5 years	-	580,840	580,840
More than 5 years	-	-	-
<b>Total</b>	<b>\$ 15,087,095</b>	<b>\$ 692,677</b>	<b>\$ 15,779,772</b>

A summary of the Company's contractual obligations at August 31, 2021, is detailed in the table below.

<b>As at August 31, 2021</b>	<b>Borrowings</b>	<b>Lease liabilities</b>	<b>TOTAL</b>
Less than one year	\$ 3,488,794	\$ 90,929	\$ 3,579,723
1 to 5 years	11,738,899	761,480	12,500,379
More than 5 years	-	-	-
<b>Total</b>	<b>\$ 15,227,693</b>	<b>\$ 852,409</b>	<b>\$ 16,080,102</b>

Management believes that the Company will be able to generate sufficient cash to meet its current obligations for the next twelve months by raising funds through equity markets and from the commencement of operations.

### ***Off Balance Sheet Arrangements***

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

### ***Related Party Transactions***

	<b>August 31, 2022</b>		<b>31-Aug-21</b>	
Salaries, benefits, and management fees	\$	362,406	\$	442,803
Equity-based compensation		16,460		542,066
	\$	<b>378,866</b>	\$	<b>984,869</b>

During the nine months ended August 31, 2022, the Company paid/accrued the following related party fees:

- a) Accrued \$63,560 in management fees to the CEO;
- b) Accrued \$75,000 in management fees to the President;
- c) Paid \$114,408 in salaries and benefits to the CFO;

### ***Related Party Receivables (Payables):***

	<b>May 31, 2022</b>		<b>May 31, 2021</b>	
Stephanie Wesik		(300,385)		(122,644)
Douglas Mason		(98,846)		(10,000)
Bob Blink		(285,996)		(79,290)
Alan Applonie		(223,957)		(205,657)
Peter Gregovich		(6,205)		-
Gary Khangura		(8,247)		-

### ***Significant Accounting Policies and Critical Accounting Estimates***

All significant accounting policies and critical accounting estimates are fully disclosed in Note 3 of the audited consolidated financial statements for the years ended November 30, 2022 and 2021.

### ***Financial Instruments***

#### Fair Values

The Company's financial instruments consist of cash, accounts payable and accrued liabilities and due to related parties. The fair values of these financial instruments approximate their carrying values because of their current nature.

The following table summarizes the carrying values of the Company's financial instruments:

	<b>August 31, 2022</b>		<b>August 31, 2021</b>	
Fair value through profit or loss (i)	\$	7,958,176	\$	807,607
Fair value through profit or loss (i)		(3,858,739)	\$	-
Loans and receivables (ii)		(72,867)		605,110
Other financial liabilities (iii)		6,332,159		16,858,963

- (i) Cash and convertible debt,
- (ii) Due from related parties, advances receivable, and amounts receivable,
- (iii) Accounts payable and accrued liabilities, notes payable, and amounts due to related parties.

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company’s financial assets measured at fair value by level within the fair value hierarchy as follows:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash	\$ 7,958,176	\$ -	\$ -	7,958,176

The Company’s financial instruments are exposed to a number of financial and market risks, including credit, liquidity, interest rate and currency risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company’s management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

#### Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

#### 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 the management of its capital structure.

#### Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instruments to hedge potential fluctuations in interest rates. The exposure to interest rate risk for the Company is considered minimal. The Company has no interest-bearing borrowings as of the date of this MD&A.

The Company considers its interest rate risk policies to be effective and has followed them consistently.

#### Price Risk

The Company is exposed to commodity price risk as its current business operations do depend on fluctuations in the market price of commodities.

## ***Outstanding Share Data***

As of the date of this report, the Company had the following securities issued and outstanding:

<b>As at October 31, 2022</b>	<b>Amount</b>	<b>Exercise Price</b>	<b>Expiry date</b>
Common shares <sup>(1)</sup>	112,674,180	n/a	Issued and outstanding
Options	400,000	1.00	November 6, 2024
Options	200,000	1.00	November 6, 2024
Options	515,333	1.00	February 18, 2025
Options	300,000	1.00	December 1, 2025
Options	600,000	1.00	January 19, 2023
Options	558,333	1.00	January 19, 2026
Options	1,050,000	1.00	July 9, 2026
Options	688,334	1.00	July 9, 2026
Options	400,000	1.00	July 9, 2026
Options	100,000	1.00	July 9, 2026
Warrants	1,632,800	0.75	November 18, 2022
Warrants	63,040	0.75	November 18, 2022
Warrants	3,800,000	1.00	January 29, 2023
Warrants	1,578,194	1.00	March 21, 2023
Warrants	42,000	1.00	March 21, 2023
Warrants	1,356,873	0.75	December 3, 2023
Warrants	80,550	0.75	December 3, 2023
Warrants	1,200,000	2.60	February 21, 2024
Warrants	10,000,000	0.20	April 1, 2024
Warrants	283,500	0.20	April 1, 2024
<b>Total</b>	<b>\$ 137,523,137</b>	<b>Total shares outstanding (fully diluted)</b>	

<sup>(1)</sup> Authorized: Unlimited common shares without par value.

## ***Risks and Uncertainties***

The following are certain risk factors relating to the business carried out by the Company which prospective investors should carefully consider before deciding whether to purchase the Company's securities. The risks presented below may not be all of the risks that the Company may face. The Company will face a number of challenges in the development of its business. Due to the nature of the Company's business and present stage of the business, the Company may be subject to significant risks. Sometimes new risks emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. Readers should not rely upon forward-looking statements as a prediction of future results. Readers should carefully consider all such risks, including those set out in the discussion below.

### ***Additional Financing***

The continued development of the Company will require additional financing. There is no guarantee that the Company will be able to achieve its business objectives. The Company intends to fund its future business activities by way of additional offerings of equity and/or debt financing as well as through anticipated cash flow from operations. The failure to raise or procure such additional funds or the failure to achieve positive cash flow could result in the delay or indefinite postponement of current business objectives. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, will be on terms acceptable to the Company. If additional funds are raised by offering equity securities, existing shareholders could suffer significant dilution. Any debt financing secured in the future could involve the granting of security against assets of the Company and also contain 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. The Company will require additional financing to fund its operations until positive cash flow is achieved. See "*Risk Factors – Negative Cash Flow from Operations*".

### ***Volatility of Stock Markets***

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Shares to sell their securities at an advantageous price. Market price fluctuations in the Shares may be due to the Company's operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Shares.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Shares may be materially adversely affected.

### ***It may be difficult, if not impossible, for U.S. holders of the Company's securities to resell them***

Management has been made aware that some major securities clearing firms in the U.S. have ceased participating in transactions related to securities of Canadian public companies involved in the medical marijuana industry. This appears to be due to the fact that marijuana continues to be listed as a controlled substance under U.S. federal law, with the result that marijuana-related practices or activities, including the cultivation, possession or distribution of marijuana, are illegal under U.S. federal law. However, management understands that the action by U.S. securities clearing firms also extends to securities of companies that carry on business operations entirely outside the U.S. Accordingly, U.S. residents who acquire the Units as "restricted securities" (including any Warrant Shares pursuant to the exercise of Warrants) may find it difficult – if not impossible – to resell such securities over the facilities of any Canadian stock exchange on which the shares may then be listed. It remains unclear what impact, if any, this and any future actions among market participants in the U.S. will have on the ability of U.S. residents to resell any securities of the Company that they may acquire in open market transactions.

### ***Risk Factors Related to Dilution***

The Company may issue additional securities in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of Shares. The Company's shareholders do not have pre-emptive rights in connection with any future issuances of securities by the Company. The directors of the Company have discretion to determine the price and the terms of further issuances. Moreover, additional Shares will be issued by the Company on the exercise of options under the Stock Option Plan and upon the exercise of outstanding warrants.

It is likely that the Company will enter into more agreements to issue Shares and warrants and options to purchase Shares. The impact of the issuance of a significant number of Shares from these warrant and option exercises could place downward pressure on the market price of the Shares.

### ***Enforcement of Judgments Against Foreign Subsidiaries***

There is some doubt as to the enforceability in the United States by a court in original actions, or in actions to enforce judgments of Canadian courts, of civil liabilities predicated upon such applicable Canadian provincial securities laws or otherwise. A court in the United States may refuse to hear a claim based on a violation of Canadian provincial securities laws or otherwise on the grounds that such jurisdiction is not the most appropriate forum to bring such a claim. Even if a court in the United States agrees to hear a claim, it may determine that the local law in the United States, and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact, which can be a time consuming and costly process. Certain matters of procedure will also be governed by foreign law in such circumstances.

### ***Ability of Company to Continue as a Going Concern***

The Company is in the development stage and is currently seeking additional capital to develop its operations in the cannabis industry and grow its revenue. The Company's ability to continue as a going concern is dependent upon its ability in the future to grow its revenue and achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity and debt, will be sought to finance the operations of the Company; however, there can be no certainty that such funds will be available at terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

### ***Negative Cash Flow from Operations***

During the period ended November 30, 2020, the Company had negative cash flows from operating activities. Although the Company anticipates it will have positive cash flow from operating activities in future periods, to the extent that the Company has negative cash flow in any future period, certain of the net proceeds from the Offering may be used to fund such negative cash flow from operating activities.

### ***Dividends***

The Company does not anticipate paying any dividends on the Shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

Any decision to declare and pay dividends in the future will be made at the discretion of the Company's board of directors and will depend on, among other things, financial results, cash requirements, contractual restrictions and

other factors that the Company's board of directors may deem relevant. As a result, investors may not receive any return on an investment in the Units unless they sell their shares of the Company for a price greater than that which such investors paid for them.

### ***COVID-19***

The outbreak of COVID-19 which has been declared by the World Health Organization to be a "pandemic" has spread across the globe and is impacting worldwide economic activity. A public health epidemic, including COVID-19, or the fear of a potential pandemic, poses the risk that the Company or its employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, including due to shutdowns or other preventative measures taken to limit the potential impact from a public health epidemic that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the impact that COVID-19 (or any other actual or potential pandemic) could have on the Company's business, the continued spread of COVID-19 (or any other actual or potential pandemic) and the measures taken by the governments of countries affected could disrupt the supply chain and the manufacture or shipment or sale of the Company's products and adversely impact its business, financial condition or results of operations. It could also affect the health and availability of the Company's workforce at its facilities, as well as those of its suppliers. The COVID-19 outbreak and mitigation measures may also have an adverse impact on global economic conditions which could have an adverse effect on the Company's business and financial condition. The extent to which the COVID-19 outbreak impacts the Company's results will depend on future developments that are highly uncertain and cannot be predicted.

## **LEGAL AND REGULATORY MATTERS**

### ***United States Federal Overview***

In the U.S. thirty-six states and Washington D.C. have legalized medical marijuana, which includes nine states and Washington D.C. that have also legalized adult-use marijuana. In addition to the thirty-six states which have legalized marijuana, twelve states have legalized CBD oil, of which Georgia and Virginia allow THC concentrations under 5% in the CBD oil. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the U.S. Controlled Substance Act of 1970 (the "CSA"). Under U.S. 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, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, hereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

While technically 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 U.S. Department of Justice ("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 adult-use cannabis programs. The Cole Memorandum, while not legally binding, assisted in managing the tension between state and federal laws concerning state-regulated marijuana businesses. However, on January 4, 2018, the Cole Memorandum was revoked by former Attorney General Jeff Sessions. While this did not create a change in federal law - as the Cole Memorandum was not itself law - the revocation added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is regulated. Sessions also issued a one-page memorandum known as the "Sessions Memorandum." This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance 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 does emphasize that marijuana is a Schedule I controlled substance and states the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise guide U.S. Attorneys 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. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that displayed under the Cole Memorandum's guidance. Dozens of U.S. Attorneys across the country have affirmed their commitment to proceeding in this manner, or otherwise affirming that their view of federal enforcement priorities has not changed, although a few have displayed greater ambivalence. On November 7, 2018, Mr. Sessions tendered his resignation as Attorney General at the request of President Donald Trump. Following Mr. Sessions' resignation, and Matthew Whitaker serving as Acting United States Attorney General, William Barr was appointed as US Attorney General on January 15, 2019. William Barr stated at his confirmation hearing to the Senate Judiciary Committee that he would "not go after companies" that had relied upon the Obama-era guidance (the Cole Memorandum) that former Attorney General Jeff Sessions had rescinded in states where cannabis has been legalized. It is unclear what impact, if any, Attorney General William Barr's comments will have on the enforcement of federal regulation of marijuana in the United States. In Nevada, the U.S. Attorney has yet to make any comments regarding the revocation of the Cole Memorandum or indicate any changes to enforcement priorities.

While it is too soon to determine what prosecutorial effects will be created by the rescission of the Cole Memorandum, a nationwide "crackdown" is unlikely. The sheer size of the cannabis industry, in addition to participation by state and local governments and investors, suggests that a large-scale enforcement operation would more than likely create unwanted political backlash for the DOJ and the Trump administration. It is also possible that the rescission of the Cole Memorandum could motivate Congress to finally reconcile federal and state laws. Regardless, marijuana remains a Schedule I controlled substance at the federal level, and neither the Cole Memorandum nor its rescission has altered that fact. The federal government of the U.S. has always reserved the right to enforce federal law in regard to the sale and disbursement of medical or adult-use marijuana, even if state law sanctioned such sale and disbursement. From a purely legal perspective, the criminal risk today remains identical to the risk on January 3, 2018, prior to the Cole Memorandum being rescinded. It remains unclear whether the risk of enforcement has been altered.

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions, particularly those that are federally chartered in the U.S., could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses.

Despite these laws, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("**FinCEN**") issued a memorandum on February 14, 2014 (the "**FinCEN Memorandum**") outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report ("SAR") in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws. These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution's belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum (the "**2014 Cole Memo**") directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether

to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

However, former Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to be a standalone document which explicitly lists the eight enforcement priorities originally cited in the Cole Memorandum. As such, the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance. However, in the United States, it is difficult for cannabis-based businesses to open and maintain a bank account with any bank or other financial institution. Furthermore, on January 15, 2019, US Attorney General William Barr stated during his confirmation hearings and to the Senate Judiciary panel that, "I do not intend to go after parties who have complied with state law in reliance on the Cole Memorandum."

In the U.S., the SAFE Banking Act of 2019, H.R. 1595, passed a vote on September 25, 2019, through a vote by the Committee of the Whole Congress, and is now awaiting action in the U.S. Senate. Generally, the act would let banks offer services to cannabis-related businesses. They could also offer services to those businesses' employees. There can be no assurance with that H.R. 1595 will be passed in its current form or at all. In both Canada and the U.S., transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes could help to reduce or eliminate these challenges for companies in the cannabis space and would improve the efficiency of both significant and minor financial transactions.

Although the Cole Memorandum and 2014 Cole Memo have been rescinded, one legislative safeguard for the medical marijuana industry remains in place: Congress has used a rider provision in the FY 2015, 2016, 2017 and 2018 Consolidated Appropriations Acts (currently the "**Rohrabacher-Leahy Amendment**") to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The Leahy Amendment expired with the 2018 Fiscal Year on September 30, 2018, however, on May 17, 2018, the United States House of Representatives Appropriations Committee approved inclusion of the Rohrabacher–Farr amendment in the Commerce, Justice, Science, and Related Agencies ("CJS") appropriations bill for fiscal year 2019 (H.R. 5952), in a voice vote led by sponsor Rep. David Joyce, which adds a provision to prohibit the U.S. Department of Justice from using funding to prevent states from implementing medical marijuana laws through the end of fiscal year 2019 (September 30, 2019), (the "Joyce Amendment"). The United States Senate Appropriations Committee followed on June 12, 2018, by approving a base CJS appropriations bill with the Joyce Amendment included (S. 3072). On December 20, 2019, the amendment was renewed through the signing of the FY 2020 omnibus spending bill, effective through September 30, 2020.

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow. It was anticipated that the federal government would eventually repeal the federal prohibition on cannabis and thereby leave the states to decide for themselves whether to permit regulated cannabis cultivation, production and sale, just as states are free today to decide policies governing the distribution of alcohol or tobacco. Given current political trends, however, these developments are considered unlikely in the near-term. As an industry best practice, despite the recent rescission of the Cole Memorandum, the Company intends to abide by the following to ensure compliance with the guidance provided by the Cole Memorandum:

- ensure that its operations are compliant with all licensing requirements as established by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions;

- ensure that its cannabis related activities adhere to the scope of the licensing obtained (for example: in the states where cannabis is permitted for adult-use, the products are only sold to individuals who meet the requisite age requirements);
- implement policies and procedures to ensure that cannabis products are not distributed to minors;
- implement policies and procedures to ensure that revenue is not distributed to criminal enterprises, gangs or cartels;
- implement adequate inventory tracking system and necessary procedures to ensure that such compliance system is effective in tracking inventory and preventing diversion of cannabis or cannabis products into those states where cannabis is not permitted by state law, or cross any state lines in general;
- ensure that its state-authorized cannabis business activity is not used as a cover or pretense for trafficking of other illegal drugs, is engaged in any other illegal activity or any activities that are contrary to any applicable anti-money laundering statutes;
- ensure that its products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

### ***Anti-Money Laundering Laws and Regulations***

The Company is subject to a variety of laws and regulations in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S.. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

The Company's activities, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains illegal federally in the U.S. This may restrict the ability of the Company to declare or pay dividends or effect other distributions. Furthermore, while the Company has no current intention to declare or pay dividends on its common shares (the "**Common Shares**") in the foreseeable future, the Company may decide to, or be required to, suspend declaring or paying dividends without advance notice and for an indefinite period of time. Ability to Access Private and Public Capital Prior to the IPO, the Company relied entirely on access to private capital in order to support its continuing operations and capital expenditure requirements. The Company expects to rely on both private and public capital markets to finance its growth plans in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and despite the legal standing of cannabis businesses pursuant to U.S. federal laws, the Company has been successful and believes it will continue to be successful in raising private and public financing in the future. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due to their unwillingness to be associated with activities which violate U.S. federal laws.

### ***Ability to Access Private and Public Capital***

The Company expects to rely on both private and public capital markets to finance its growth plans in the U.S. legal cannabis industry. Although such business carries a higher degree of risk, and despite the legal standing of cannabis businesses pursuant to U.S. federal laws, the Company has been successful and believes it will continue to be successful in raising private and public financing in the future. However, there is no assurance the Company will be successful, in whole or in part, in raising funds, particularly if the U.S. federal authorities change their position

toward enforcing the CSA. Further, access to funding from U.S. residents may be limited due to their unwillingness to be associated with activities which violate U.S. federal laws.

### *California State Level Overview*

In 1996, California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996 ("CUA"). This legalized the use, possession and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief.

In 2003, Senate Bill 420 was signed into law establishing an optional identification card system for medical marijuana patients.

In September 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("MCRSA"). The MCRSA established a licensing and regulatory framework for medical marijuana businesses in California. The system created multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the "Adult-Use of Marijuana Act" ("AUMA") creating an adult-use marijuana program for adults 21 years of age or older. AUMA had some conflicting provisions with MCRSA, so in June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA"), which amalgamates MCRSA and AUMA to provide a set of regulations to govern medical and adult-use licensing regime for cannabis businesses in the state of California. MAUCRSA went into effect on January 1, 2018. The four agencies that regulate marijuana at the state level are the BCC, the California Department of Food and Agriculture, the California Department of Public Health, and the California Department of Tax and Fee Administration.

In order to legally operate a medical or adult-use cannabis business in California, the operator must have both a local and state license. This requires license holders to operate in cities with marijuana licensing programs. Therefore, cities in California are allowed to determine the number of licenses they will issue to marijuana operators or can choose to outright ban marijuana.

TransCanna through its wholly-owned subsidiary, Lyfted, is licensed to operate as a medical and adult-use cultivator and processor under applicable California and local jurisdictional law (the "California License"). The California License permits the California Subsidiaries to cultivate and process medical and adult-use cannabis in the state of California pursuant to the terms of the California License issued by the BCC under the provision of the MAUCRSA and California Assembly Bill No. 133. In California, licenses are independently issued for each approved activity for use.

California state and local licenses are renewed annually. Each year, licensees are required to submit a renewal application per guidelines published by BCC. While renewals are annual, there is no ultimate expiry after which no renewals are permitted. Additionally, in respect of the renewal process, provided that the requisite renewal fees are paid, the renewal application is submitted in a timely manner, and there are no material violations noted against the applicable license, TransCanna would expect to receive the applicable renewed license in the ordinary course of business. While TransCanna's compliance controls have been developed to mitigate the risk of any material violations of a license arising, there is no assurance that the licenses will be renewed in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process could impede the ongoing or planned operations of the Resulting Issuer and have a material adverse effect on its business, financial condition, results of operations or prospects.

TransCanna, through its wholly owned subsidiary Lyfted, applied for and was granted licenses permitting it to cultivate, and distribute retail medical (and in some instances, adult-use) cannabis and cannabis-related products in Modesto (Stanislaus County):

- (2) Type 2A – Cultivation, Indoor (Small) for Adult-Use and Medical ("A&M") – one for the Jerusalem Court location and one for the Daly Facility;
- Type 4 - Cultivation – Nursery, A&M; and
- (2) Type 11 - Distribution, A&M – one for the Jerusalem Court location and one for the Daly Facility.

**Anti-Money Laundering Laws and Regulations** The Company is subject to a variety of laws and regulations in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy. The Company's activities, and any proceeds thereof, may be considered proceeds of crime due to the fact that cannabis remains illegal federally in the U.S. This may restrict the ability of the Company to declare or pay dividends or effect other distributions. Furthermore, while the Company has no current intention to declare or pay dividends on its common shares (the "Common Shares") in the foreseeable future, the Company may decide to, or be required to, suspend declaring or paying dividends without advance notice and for an indefinite period of time.

## **SUBSEQUENT EVENTS**

On September 21st, 2022 the Company provided an update on the construction of Phase 2 of its 196,000 square foot Daly Facility in Modesto, California.

Following the successful refinancing of the Daly Facility through a USD \$15,800,000 loan from Pelorus Equity Group, TransCanna is underway with construction at its flagship Daly Facility in Modesto, California. Through the refinancing with Pelorus Equity Group, TransCanna unlocks a USD \$4,000,000 construction budget.

After near completion with delays due to Covid, the Company is now able to continue construction work on Phase 1. Completion of Phase 1 will allow the Company to have all 5 approximately 4500 sq. foot cultivation rooms of the Daly Facility operational – a very significant milestone for the Company.

Concurrently construction crews will commence work on Phase 2, adding:

- 4 more approximately 4,700 square foot cultivation rooms
- 3 new curing rooms to accommodate scaled up production of all 9 large cultivation room, giving the advantage of cutting the time in between cycles and rooms being replanted
- Climate and Humidity controls to aid cultivation of different genetics, furthering the Company's ability to consistently stay ahead of trends and produce top quality exotic indoor strains
- New Vegetative rooms to support increased scale of production rooms at the facility and ability to house and test more genetics and produce larger amounts of high-quality clone stock in-house

Construction of Phase 2 is expected to take 4 to 5 months.

Stephanie Wesik resigned as President and as a member of the Board of Directors. The Company appointed Mr. James (Bob) Blink as President. Mr. Blink also remains the CEO of the Company.

The Company appointed Mr. Travis Heilman to the Board of Directors. Mr. Heilman has held various management roles with TransCanna Holdings Inc. and has extensive knowledge of the various business units within the Company. Mr. Heilman has served as Director of Supply Chain Management and led the success of Lyfted Farms' distribution and sales performance. His many years of leadership experience and comprehensive insight of the cannabis industry have been fundamental to the advancement of the Lyfted Farms' brand, integrity, and production.

The Company's auditor, Dale Matheson Carr-Hilton Labonte LLP ("DMCL"), resigned effective September 29, 2022.

DMCL has advised that its resignation is a business decision of such firm and has confirmed that there are no reportable events (as such term is defined in National Instrument 51-102 – *Continuous Disclosure Obligations* ("NI 51-102")).

The matter is currently under review by the Company's audit committee and discussions will commence with potential successor auditors to fill the vacancy imminently. In accordance with NI 51-102, the Company has delivered a copy of a change of auditor notice (the "Notice") to DMCL and has received DMCL's written response confirming that it agrees with the statements set forth in the Notice. The Notice has been filed on the Company's profile on SEDAR. As soon as a successor auditor has been appointed, TransCanna will file a further press release confirming such appointment and whether the successor auditor agrees with the statements in the Notice.

## **RISK FACTORS**

### **Risks Related to the Business of the Company**

#### ***Risks Specifically Related to the United States Regulatory System***

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

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

The Company is expected to continue to derive all or substantially all of its revenues from the cannabis industry in certain states of the United States, which industry is illegal under United States federal law. While the Company's business activities are compliant with applicable state and local law, such activities remain illegal under United States federal law. The Company is involved in the cannabis industry in the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions.

Currently, the Company is indirectly and directly engaged in the possession, distribution and sale of cannabis and cannabis-related products in the medical cannabis marketplace in the United States. The Company plans to operate in the recreational cannabis marketplace in the future. The enforcement of relevant laws is a significant risk.

Thirty-three of the states in the United States have enacted comprehensive legislation to regulate the sale and use of medical cannabis. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the CSA. As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation, and enforcement. Unless and until the United States Congress amends the CSA with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect the current and future investments of the Company in the United States. As a result of the tension between state and federal law, there are a number of risks associated with the Company's existing and future investments in the United States.

For the reasons set forth above, the Company's existing interests in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("TMX MOU") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Shares to make and settle trades. In particular, the Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange.

Further, on January 4, 2018, then U.S. Attorney General Jeff Sessions formally rescinded the standing U.S. Department of Justice federal policy guidance governing enforcement of marijuana laws, as set forth in a series of memos and guidance from 2009-2014, principally the Cole Memorandum. The Cole Memorandum generally directed U.S. Attorneys not to enforce the federal marijuana laws against actors who are compliant with state laws,

provided enumerated enforcement priorities were not implicated. The rescission of this memo and other Obama-era prosecutorial guidance did not create a change in federal law as the Cole Memorandums were never legally binding; however, 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. The federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the rescission of the above memorandums does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the federal government will not enforce such laws in the future.

Additionally, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's business would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company and its business.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum discussed above, on February 8, 2018 the Canadian Securities Administrators published a staff notice (Staff Notice 51-352) setting out their disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views this staff notice favourably, as it provides increased transparency and greater certainty regarding the views of its exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States.

The Company's funding of its subsidiaries through loans, royalties or other forms of investment, may be illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against the Company. The consequences of such enforcement would be materially adverse to the Company and the Company's business and could result in the forfeiture or seizure of all or substantially all of the Company's assets.

The concepts of "medical cannabis" and "retail cannabis" do not exist under United States federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. 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 the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United



States federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

There is still uncertainty surrounding the Biden Administration and its influence and policies in opposition to the cannabis industry as a whole.

Many factors could cause the Company's actual results, performances and achievements to differ materially from those expressed or implied by the disclosure herein, including, without limitation, the following factors which should be reviewed in detail by all readers:

- The Company's subsidiaries are operating in the United States, where cannabis is federally illegal;
- The activities of the Company are subject to evolving regulation that is subject to changes by governmental authorities;
- Third parties with which the Company does business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities;
- The Company's ability to repatriate returns generated from investments in the U.S. may be limited by anti-money laundering laws;
- Federal prohibitions result in marijuana businesses being potentially restricted from accessing the U.S. federal banking system, and the Company and its subsidiaries may have difficulty depositing funds in federally insured and licensed banking institutions. This may lead to further related issues, such as the potential that a bank will freeze the Company's accounts and risks associated with uninsured deposit accounts. There is no certainty that Company will be able to maintain its existing accounts or obtain new accounts in the future; and
- Although the TMX MOU confirms that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future.

### ***Risks Concerning Application of Anti-Money Laundering Legislation***

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the U.S. Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, FinCEN issued a memorandum on February 14, 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal enforcement priorities (the "FinCEN Memorandum"). The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the

prosecution of money laundering offenses predicated on cannabis-related violations of the United States Controlled Substances Act on the same day (the "2014 Cole Memo"). The 2014 Cole Memo has been rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes was not a DOJ priority.

Former Attorney General Sessions' revocation of the Cole Memorandum and the 2014 Cole Memo has not affected the status of the FinCEN Memorandum, nor has the Department of the Treasury given any indication that it intends to rescind the FinCEN Memorandum itself. Though it was originally intended for the 2014 Cole Memo and the FinCEN Memorandum to work in tandem, the FinCEN Memorandum appears to remain in effect as a standalone document which explicitly lists the eight enforcement priorities originally cited in the rescinded Cole Memorandum. Although the FinCEN Memorandum remains intact, indicating that the Department of the Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the current administration will continue to follow the guidelines of the FinCEN Memorandum.

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

#### ***Risk of Heightened Scrutiny by Regulatory Authorities in Canada***

For the reasons set forth above, the Company's existing operations in the United States, and any future operations, 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 ability to invest in the United States or any other jurisdiction, in addition to those described herein.

Although the TMX MOU has confirmed that there is currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of Shares to make and settle trades. In particular, the Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Shares through the facilities of a stock exchange.

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

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations, investors are cautioned that in the United States, cannabis is largely regulated at the state level. To the Company's knowledge, there are to date a total of 46 states, plus the District of Columbia, that have legalized cannabis in some form. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the CSA in the United States and as such, may be in violation of federal law in the United States.

As previously stated, the United States Congress has passed appropriations bills (currently the "Leahy Amendment") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating in compliance with state and local law. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It will continue in effect until September 30, 2018. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital CSA violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

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 various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined.

### ***Prohibitions in California on 'for profit' activities of the Company***

Until the implementation of MAUCRSA earlier last year, it was illegal under California law to engage in any "for profit" activities relating to the purchase and sale of cannabis and to sell, distribute or purchase cannabis for any reason other than certain medical uses. Despite the implementation of MAUCRSA, many municipalities still prohibit such 'for profit' activities. Such limitations often result in inefficiencies in operations and use of resources and could hinder, or otherwise prevent, the growth of the Company's business and of a commercially viable cannabis industry in California.

While the Company intends that one or more of its subsidiaries will be service-providers, and the Company does not consider such services as restricted from being "for profit" activities, there is no assurance that this structure will be respected by applicable governmental authorities. In the event that this structure is not respected, the Company may be prohibited from engaging in "for profit" activities in certain jurisdictions.

California has legalized the sale of cannabis for medical use outside of cooperatives or collectives for both medical and adult-use and as a for-profit business activity, and MAUCRSA provides a one-year grace period for cooperatives and collectives. The permanent regulations governing the operation of cannabis-related businesses have not been promulgated. Accordingly, there is no way to currently anticipate what the legal climate surrounding the Company's anticipated business plan will be at any point in the future and there is no assurance that the Company will operate profitably or generate revenues or profits that will permit the payment of dividends.

The Company is regularly monitoring changes to applicable law and will timely respond to ensure that it remains compliant in all circumstances.

### ***Change in Laws, Regulations and Guidelines***

The Company's current and proposed operations are subject to a variety of laws, regulations and guidelines, including, but not limited to, those relating to the manufacture, management, transportation, storage and disposal of cannabis, as well as laws and regulations relating to health and safety (including those for consumable products), the conduct of operations and the protection of the environment. These laws and regulations are broad in scope and subject to evolving interpretations. If any changes to such laws, regulations and guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operation. In addition, violations of these laws, or allegations of such violations, could disrupt certain aspects of the Company's business plan and result in a material adverse effect on certain aspects of its planned operations.

Changes in regulations, more vigorous enforcement thereof, the imposition of restrictions on the Company's ability to operate in the U.S. as a result of the federally illegal nature of cannabis in the U.S. or other unanticipated events could require extensive changes to the Company's 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.

### ***Permits and Authorizations***

There is no assurance that the Company will obtain and retain any relevant licenses, including the Permits. If obtained, the Permits will be subject to ongoing compliance and reporting requirements. Failure by the Company to comply with the requirements of the Permits or any failure to maintain the Permits would have a material adverse impact on the business, financial condition and operating results of the Company. The failure of the Company to receive the Permits could, among other things, delay or prevent the Company from becoming profitable.

### ***Enforceability of Contracts***

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

### ***Unfavorable Publicity or Consumer Perception***

The regulated cannabis industry in the United States and Canada is at an early stage of its development. The Company believes the medical and recreational cannabis industry is highly dependent on consumer perception regarding the safety and efficacy of recreational and medical cannabis. 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 favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for 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 on the business of the Company. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

Public opinion and support for medical and recreational cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. Legalization of medical and recreational cannabis remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, legalization of medical marijuana as opposed to legalization in general).

### ***Limited Operating History***

The Company and its subsidiaries were only recently incorporated and have no history of significant operations which makes it difficult for investors to evaluate the Company's operations and prospects and may increase the risks associated with an investment into the Company.

The Company has not generated profits or revenues in the periods covered by its financial statements included herein, and, as a result, has only a very limited operating history upon which its business and future prospects may be evaluated. Although the Company expects to generate some revenues from its operations in the future, the Company is expected to remain subject to many of the risks common to early-stage enterprises for the foreseeable future, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

### ***Costs Relating to Development of Operations***

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, including the Distribution Facility, and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's 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. The Company's efforts to grow its business may be costlier than expected. The Company may incur significant losses in the future for a number of reasons, including the other risks described in this prospectus, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the Shares may significantly decrease.

There are factors which may prevent the Company from the realization of growth targets. The Company is currently in the expansion from early development stage. The Company's growth strategy contemplates building the Distribution Facility and seeking additional distribution facility space. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these "*Risk Factors*" and the following:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution; non-performance by third party contractors; increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;

- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- operational inefficiencies;
- labour disputes, disruptions or declines in productivity; inability to attract sufficient numbers of qualified workers; disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions or storms.

### ***Competition***

The Company competes with other companies for financing and business opportunities in the cannabis industry. Some of these companies may possess greater financial resources than the Company. Such competition may result in the Company being unable to enter into desirable strategic agreements or similar transactions, to recruit or retain qualified employees or to acquire the capital necessary to fund its operations. Existing or future competition in the cannabis industry, including, without limitation, the entry of large multinational entities into the industry, could materially adversely affect the Company's prospects for entering into additional agreements in the future.

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 experience than the Company. Increased competition by larger and better financed competitors, including competitors to the Company's investments, could materially and adversely affect the business, financial condition and results of operations of the Company.

### ***Banking***

Since the production and possession of cannabis is currently illegal under U.S. federal law, it is possible that banks may refuse to open bank accounts for the deposit of funds from businesses involved with the cannabis industry. The inability to open bank accounts with certain institutions could materially and adversely affect the business of the Company.

### ***Currency Fluctuations***

The Company's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results.

### ***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 or management 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. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. In addition, the Company's lean management structure may be strained as the Company pursues growth opportunities in the future. The loss of the services of such individuals or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all.

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

### ***Illegal or Fraudulent Activities of Employees***

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) distribution standards; or (iii) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on its business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

### ***Insurance Coverage***

The Company does not currently have full insurance coverage. Additionally, because the Company operates within the cannabis industry, there are additional difficulties and complexities associated with insurance coverage. The Company intends that it and its subsidiaries will obtain insurance coverage with respect to workers' compensation, general liability, directors' and officers' insurance, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the Company is engaged in and operates within the cannabis industry, there are likely to be exclusions and additional difficulties and complexities associated with any such insurance coverage that could cause the Company to suffer uninsured losses, which could adversely affect the Company's business, results of operations, and profitability. There is no assurance that the Company will be able to fully utilize such insurance coverage, if necessary. Until such time as the Company obtains insurance coverage, it faces exposure to all forms of losses relating to liabilities, worker's compensation, fire and other general liabilities.

### ***Operational Risks***

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

### ***Cybersecurity Risks***

The Company has entered into agreements with third parties for the licensing of certain software in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

### ***Holding Company***

The Company is a holding company and essentially all of its assets are the capital stock of its material subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and investments and the distribution of those earnings to Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company.

### ***Conflicts of Interest***

Certain of the Company's directors and officers are, and may continue to be, involved in other business ventures through their direct and indirect participation in, among other things, corporations, partnerships, joint ventures, that may become potential competitors of the technologies, products and services the Company intends to provide. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from the Company's interests. In accordance with applicable corporate law, directors who have a material interest in or who are parties to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the transaction. In addition, the directors and officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to the Company. Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavorable to the Company.



### *Contingencies*

There are no contingent liabilities. From time to time, the Company may be involved in litigation relating to claims arising out of operations in the normal course of business. At November 30, 2021, there were no pending lawsuits that could reasonably be expected to have a material effect on the results of the Company's combined operations.