



New Leaf Ventures Inc.

**ANNUAL INFORMATION FORM
For Fiscal Year Ended December 31, 2021**

April 29, 2022

FORWARD LOOKING STATEMENTS

This annual information form (“**AIF**” or “**Annual Information Form**”) of New Leaf Ventures Inc. (“**New Leaf**” or the “**Company**”) contains “forward-looking statements” or “forward-looking information” within the meaning of applicable Canadian securities legislation (collectively, “**forward-looking statements**”), based on current expectations, estimates, forecasts, projections, beliefs and assumptions made by management of the Company including about the industry in which it operates. Forward-looking statements are not guarantees of future performance and involve assumptions, risks, and uncertainties that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed, implied or forecast in such forward-looking statements. The Company does not intend, and disclaims any obligation, to update any forward-looking statements after it files this Annual Information Form, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. Forward-looking statements are made as of the date of this Annual Information Form.

In some cases, forward-looking statements can be identified by words or phrases such as “may”, “might”, “will”, “expect”, “anticipate”, “estimate”, “intend”, “plan”, “indicate”, “seek”, “believe”, “predict” or “likely”, or the negative of these terms, or other similar expressions (or variations of such words or phrases). The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the Company’s expectations regarding its revenue, expenses and operations;
- the Company’s anticipated cash needs and its needs for additional financing;
- the Company’s intention to grow the business and its operations;
- expectations with respect to future production costs and capacity;
- the grant and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
- the Company’s competitive position and the regulatory environment in which the Company operates;
- the Company’s expectation that revenues derived from its operations will be sufficient to cover its expenses over the next twelve months;
- the Company’s ability to obtain additional funds through the sale of equity or debt commitments;
- the legalization and regulatory control of cannabis for recreational use in jurisdictions outside of the State of Washington and the Company’s opportunities for expansion into such jurisdictions; and
- the intentions of the Board (as defined herein) with respect to executive compensation plans and corporate governance plans described herein.

Certain of the forward-looking statements and other information contained in this Annual Information Form concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunities and market share, are based on estimates prepared by the Company using data from publicly available governmental sources, as well as from market research and industry analyses, and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. While the Company is not aware of any misstatement regarding any industry or government data presented herein, it is noted that the cannabis industry involves risks and

uncertainties that are subject to change based on various factors and the Company has not independently verified such third-party information.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate and are subject to risks and uncertainties. In making the forward-looking statements included in this Annual Information Form, the Company has made various material assumptions, including but not limited to: (i) obtaining the necessary regulatory approvals; (ii) that regulatory requirements will be maintained; (iii) general business, economic and political conditions; (iv) the Company's ability to successfully execute its plans and intentions; (v) the availability of financing on reasonable terms; (vi) the Company's ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Company's competitors; (ix) that good relationships with service providers and other third parties will be established and maintained; (x) continued growth of the cannabis industry; (xi) continued favourable law enforcement posture under the laws of the State of Washington and the federal laws of the United States; (xii) the License Holder's ("**License Holder**") is defined below in the section "*General Development of the Business*") ability to maintain and renew its license or supplemental license to conduct activities with marijuana; and (xii) continued favourable public opinion with respect to the cannabis industry. Although the Company believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and the Company cannot assure that actual results will be consistent with these forward-looking statements. Further, the aforementioned assumptions may be affected by the negative disruptive effect of the COVID-19 (as defined below) pandemic, which has resulted in a widespread health crisis that has affected the economies and financial markets of many countries around the world. The international response to the spread of COVID-19 has led to significant restrictions on travel; temporary business closures; quarantines; global stock market and financial market volatility; a general reduction in consumer activity; operating, supply chain and project development delays and disruptions; and declining trade and market sentiment, all of which have and could further affect commodity prices, interest rates, credit ratings and credit risk. While the business interruptions, expenses and delays relating to COVID-19 are expected to be temporary, such effects could persist or re-emerge and have a material adverse impact on the Company's operations, financial condition and the market for its securities. As of the date hereof, the extent to which COVID-19 or another similar pandemic will or may impact the Company remains uncertain and will depend on future developments in Canada, the U.S. and globally, including the discovery, emergence and spread of novel variants of the COVID-19 virus, the efficacy of existing vaccines and acquired immunity against novel variants of the virus, the development and adoption of new vaccines to protect against novel variants of the virus and the development of effective treatment options. It is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations, and financial condition and the market price of the securities of the Company.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "*Risk Factors*".

The factors identified above are not intended to represent a complete list of the risks and factors that could affect the Company. Some of the important risks and factors that could affect forward-looking statements are discussed in the section entitled "*Risk Factors*" in this Annual Information Form. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

These forward-looking statements are based on the beliefs of the Company's management as well as on assumptions, which such management believes to be reasonable based on information currently available at the time such statements were made. Although the Company believes its expectations are based upon reasonable assumptions and have attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements,

there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

Investors are cautioned not to put undue reliance on forward-looking statements. The forward looking-statements contained herein are made as of the date of this Annual Information Form and, accordingly, are subject to change after such date. The Company disclaims any intent or obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of assumptions or factors, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. Investors are urged to read the Company's filings with Canadian securities regulatory agencies, which can be viewed online under the Company's profile on the System for Electronic Document Analysis and Retrieval maintained by the Canadian Securities Administrators ("**SEDAR**") at www.sedar.com.

CONVENTIONS

The information in this AIF is stated as of December 31, 2021, unless otherwise indicated.

Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

CERTAIN OTHER INFORMATION

Certain information in this AIF is obtained from third party sources, including public sources, and there can be no assurance as to the accuracy or completeness of such information. Although believed to be reliable, management of the Company has not independently verified any of the data from third party sources unless otherwise stated.

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CORPORATE STRUCTURE

Name, Address and Incorporation

New Leaf Ventures Inc. was incorporated under the *Business Corporations Act* (British Columbia) (the “**BCBCA**”) on June 4, 2018 as “1166858 B.C. Ltd.” On September 18, 2019, it changed its name to “New Leaf Ventures Inc.”

The Company’s registered and records office is located at 400 – 725 Granville Street, Vancouver, British Columbia, V7Y 1G5.

The Company’s head office is located at 1910 – 1030 W Georgia St, Vancouver, British Columbia V6E 2Y3.

The common shares of the Company (the “**Common Shares**”) are listed on the Canadian Securities Exchange (the “**CSE**” or the “**Exchange**”) and commenced trading on the CSE on May 1, 2020, under the trading symbol “NLV”. On July 23, 2020, the Company received approval for an OTC Markets listing of the Common Shares under the symbol “NLVVF” and eligibility from the Depository Trust Company (“**DTC**”) to make the Common Shares eligible to be electronically cleared and settled through DTC.

Intercorporate Relationships

The Company has six wholly-owned subsidiaries: (1) New Leaf USA Inc. (“**New Leaf USA**”); (2) New Leaf Equipment LLC (“**EquipmentCo**” or “**New Leaf Equipment**”); (3) New Leaf IP LLC (“**IPCo**”); (4) New Leaf Real Estate LLC (“**RealEstateCo**”); (5) New Leaf Services LLC (“**ServicesCo**” or “**New Leaf Services**”); and (6) New Leaf Hemp Corporation LLC (“**HempCo**” and, together with EquipmentCo, IPCo, RealEstateCo, and ServicesCo, the “**Subsidiaries**”).

The following diagram illustrates the intercorporate relationships among New Leaf and its subsidiaries, as well as the jurisdiction of incorporation of each entity.



- (i) The Company directly owns 100% of the issued and outstanding common shares of New Leaf USA. New Leaf USA was formed as a corporation pursuant to the laws of the State of Washington on May 2, 2019. New Leaf USA’s head office is located at 460 – 470 S. Kenyon Street, Seattle, Washington 98134.
- (ii) The Company indirectly owns 100% of the Membership Interest⁽¹⁾ of EquipmentCo. EquipmentCo was formed as a limited liability company pursuant to the laws of the State of Washington on May 14, 2019. EquipmentCo’s head office is located at 460 – 470 S. Kenyon Street, Seattle, Washington 98134.

- (iii) The Company indirectly owns 100% of the Membership Interest of IPCo. IPCo was formed as a limited liability company pursuant to the laws of the State of Washington on May 14, 2019. IPCo's head office is located at 460 – 470 S. Kenyon Street, Seattle, Washington 98134.
- (iv) The Company indirectly owns 100% of the Membership Interest of RealEstateCo. RealEstateCo was formed as a limited liability company pursuant to the laws of the State of Washington on May 14, 2019. RealEstateCo's head office is located at 460 – 470 S. Kenyon Street, Seattle, Washington 98134.
- (v) The Company indirectly owns 100% of the Membership Interest of ServicesCo. ServicesCo was formed as a limited liability company pursuant to the laws of the State of Washington on May 14, 2019. ServicesCo's head office is located at 460 – 470 S. Kenyon Street, Seattle, Washington 98134.
- (vi) The Company indirectly owns 100% of the Membership Interest of HempCo. HempCo was formed as a limited liability company pursuant to the laws of the State of Washington on April 4, 2019. HempCo's head office is located at 460 – 470 S. Kenyon Street, Seattle, Washington 98134.

Notes:

- (1) "Membership Interest" means a member's ownership interest in limited liability company, including such member's right (a) to a distributive share of net income, net losses and other items of income, gain, loss and deduction of the limited liability company; (b) to a distributive share of the assets of the limited liability company upon distribution or liquidation; (c) any right to vote or participate in management; and (d) to any and all other rights to which a member may be entitled as provided in the limited liability company operating agreements or by statute.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

Financial Year ended December 31, 2019

New Leaf USA was formed on May 2, 2019. New Leaf USA, through the Subsidiaries, holds assets, including real estate leases, as well as cultivation, processing, packaging and other related equipment and other tangible and intangible assets, including IP (collectively, the "**Assets**").

The foregoing Assets are held by the following Subsidiaries: RealEstateCo, EquipmentCo, IPCo, ServicesCo and HempCo. In addition, through the Option Agreement (as defined herein), New Leaf USA has an option to purchase the underlying cannabis license of the License Holder, should the laws of Washington State change to allow non-resident owners of such license.

On February 26, 2019, the Company completed a non-brokered private placement for gross proceeds of \$600,000, consisting of 12,000,000 units at a price of \$0.05 per unit (the "**PP Units**"), where each unit consists of one Common Share (a "**PP Unit Share**") and one common share purchase warrant (each, a "**PP Warrant**"), with each PP Warrant entitling the holder thereof to purchase one additional Common Share (each, a "**PP Warrant Share**") at a price of \$0.05 per PP Warrant Share until February 26, 2021.

Financial Year Ended December 21, 2020

On June 18, 2020 the Company amended the exercise price of the PP Warrants to \$0.25 per Common Share (the "**PP Warrant Repricing**"). In consideration for the PP Warrant Repricing, the Company issued to the holders of PP Warrants (the "**PP Warrant holders**") an additional 12,000,000 common share purchase warrants (the "**Additional PP Warrants**") whereby each PP Warrant holder received one Additional PP Warrant for every one PP Warrant held.

On May 1, 2020, the Company completed the acquisition of the New Leaf USA Entities (the “**Acquisition Transaction**”) The New Leaf USA Entities provide certain administrative services and back-office functions, real property, intellectual property and equipment for lease and ancillary services to New Leaf Enterprises Inc., a Washington State Liquor and Cannabis Board (“**WSLCB**”) producer and processor license holder (the “**License Holder**”, or “**NLE**”). As a result of the Acquisition Transaction, the New Leaf USA Entities are wholly-owned subsidiaries of the Company and form the core business of the Company.

The Company paid consideration for the Acquisition Transaction to Robert Colwell and Boris Gorodnitsky (the “**Vendors**”) based on management’s valuation of the New Leaf USA Entities at approximately \$2,250,000, and pursuant to the terms of a share purchase agreement dated September 13, 2019, among the Company, New Leaf USA and the Vendors. The Company satisfied this purchase price through (i) the issuance of 9,000,000 Common Shares (the “**Consideration Shares**”) to the Vendors, on a pro-rata basis; and (ii) the issuance of 4,000,000 performance warrants (the “**Performance Warrants**”) to the Vendors, on a pro-rata basis. Each of the Performance Warrants entitles the holder thereof to purchase one Common Share at the price of \$0.02 per Common Share for a period of three years following the date of issue and vest and become exercisable as follows: (i) if either the License Holder or the Company (or any successor thereof) achieves at least CDN\$5,000,000 in annual gross revenue, 2,000,000 (as to 1,000,000 per Vendor) Performance Warrants will vest and become exercisable; and (ii) if either the License Holder or the Company (or any successor thereof) achieves at least CDN\$ 7,500,000 in annual gross revenue, the remaining 2,000,000 (as to 1,000,000 per Vendor) Performance Warrants will vest and become exercisable.

Concurrent with the Acquisition Transaction, the Company completed its initial public offering (the “**IPO**”) in two tranches and listed the Common Shares on the CSE under the stock symbol “NLV.” The first tranche of the IPO (the “**First Tranche**”) consisted of 4,768,871 units of the Company (the “**IPO Units**”) at a price of \$0.25 per IPO Unit for aggregate gross proceeds of approximately \$1,192,217. Each IPO Unit comprised one Common Share and one-half of one common share purchase warrant (each whole warrant, an “**IPO Warrant**”), with each IPO Warrant exercisable to acquire one Common Share at a price of \$0.40 per share for a period of 24 months from the listing of the Common Shares on the CSE, subject to early expiry (the “**Early Expiry Event**”) if the closing price of the Common Shares on the CSE (or any equivalent exchange) is equal to or greater than \$0.60 per Common Share for a period of ten (10) consecutive trading days.

On June 3, 2020, the Company completed the second tranche of the IPO, consisting of 2,990,400 IPO Units at a price of \$0.25 per IPO Unit for aggregate gross proceeds of approximately \$747,600 (the “**Second Tranche**”). The Second Tranche marked the conclusion of the distribution period of the IPO. In connection with the First Tranche and the Second Tranche, the Company issued an aggregate of 212,280 non-transferrable share purchase warrants (the “**Agent Warrants**”) to Mackie Research Capital Corp. (the “**Agent**”) and members of its selling group. Each Agent Warrant entitles the holder to purchase one IPO Unit (each, an “**Agent Unit**”) at an exercise price of \$0.25 per Agent Unit until April 30, 2022, subject to an early expiry date upon the occurrence of the Early Expiry Event. Each Agent Unit comprises one Common Share and one-half of one warrant (each whole warrant, an “**Agent Unit Warrant**”), with each Agent Unit Warrant exercisable to purchase one Common Share on the same terms and conditions as the IPO Warrants.

On November 10, 2020 the Company announced that New Leaf USA entered into an agreement with Washington state-based Schilling Hard Cider for the creation of proprietary formulations, brand and distribution strategies for a family of cannabis infused beverage products.

On December 7, 2020 New Leaf engaged Promethean Marketing to create and conduct an investor awareness campaign in an effort to increase the Company’s shareholder base. The Company continued its market awareness campaign into 2021 at several points throughout the year and concluded the campaign in December 2021.

Financial Year ended December 31, 2021

On April 1, 2021, the Company appointed Terence Lee as the CFO, replacing Randy Minhas.

On June 15, 2021, the Company announced the finalization of Astara, its THC and CBD infused beverage product offering.

On June 18, 2021, the Company announced the termination of the proposed transaction with Zen Asset Management LLC and its parent company, Artizen Asset Management LLC.

On July 14, 2021, the Company announced the launch of its consumer website, www.damawashington.com, and provided updates on its product offerings, including the rebranding of the Company's flagship Dama product line, the launch of Tasty Tokes and the development of the Green State flower brand.

On July 28, 2021, the Company announced the filing of its base shelf prospectus, which will allow the Company to issue up to C\$50,000,000 in securities at any time during the 25 month period the prospectus is effective. The base shelf prospectus permits the Company to issue common shares, debt securities, subscription receipts, warrants, units and any combination thereof, including securities comprised of one or more of the foregoing, on the terms set forth in the applicable prospectus supplement.

On September 8, 2021 the Company announced the signing of a commercial packaging, licensing and distribution agreement between the Company's wholly owned subsidiary, New Leaf USA Inc., and Long Play Inc., a licensor of renowned cannabis brand "WILLIE'S RESERVE". The licensing encompasses exclusive rights to source, manufacture, distribute and market Willie's Reserve and Harvest products in Washington State.

On September 23, 2021, announced that its auditor, Davidson & Company LLP, Chartered Professional Accountants, has resigned at the request of the Company. Smythe LLP, Chartered Professional Accountants, has been appointed as the replacement auditor for the Company.

On September 23, 2021, the Company announced the appointment of Brad Songhurst as Chief Operating Officer and David Tran as Chief Strategy Officer of the Company's wholly owned subsidiary New Leaf USA Inc. Mr. Songhurst and Mr. Tran are expected to focus on helping the Company expand and become a multi-state operator. The Company issued each of Mr. Tran and Mr. Songhurst options to acquire 250,000 Common Shares, exercisable for a period of two years at an exercise price of \$0.28 per Common Share.

On November 1, 2021, the Company closed an offering of 6,000,000 units of the Company (the "**Supplement Units**") at an offering price of \$0.25 per Supplement Unit for gross proceeds of \$1,500,000 pursuant to a prospectus supplement dated October 27, 2021 (the "**Supplement Offering**"). Each Supplement Unit comprised one Common Share and one half of one warrant of the Company (each whole warrant, a "**Supplement Warrant**"), with each Supplement Warrant exercisable to acquire one Common Share at a price of \$0.40 for a period of 24 months from the date of closing of the Supplement Offering. If the Common Shares trade at \$0.60 or above for 10 consecutive trading days the Company will have the right to provide 30 days' notice to the holders of the Supplement Warrants that such warrants will expire at the end of the 30 day notice period. In connection with the Supplement Offering, the Company issued 420,000 compensation options (the "**Compensation Options**") to the agent for the offering, with each Compensation Option exercisable to acquire one Supplement Unit on the same terms as the units sold under the Supplement Offering.

On November 15, 2021, the Company established an at-the-market equity program (the "**ATM Program**") that allows the Company to issue and sell up to \$10,000,000 of Common Shares from treasury to the public, from time to time, at the Company's discretion. All Common Shares sold under the ATM Program

will be made through sales that are deemed to be “at-the-market distributions” as defined in National Instrument 44-102 – *Shelf Distributions*, including sales made through the CSE, or any other trading market for the Common Shares in Canada.

On November 16, 2021, the Company announced the hiring of Allan Abramovitz to guide the Company’s infused edible product development and to assist with establishing processes and procedures for the Company’s commercial kitchen.

As of December 31, 2021, the Company issued a total of 458,000 Common Shares under the ATM Program. Subsequent to the financial year ended December 31, 2021, the Company issued an additional 1,327,500 Common Shares under the ATM Program.

DESCRIPTION OF THE BUSINESS

General

The Acquisition Transaction provided the Company with access to the real property, equipment and intellectual property necessary to provide the License Holder with an integrated cannabis production and processing facility, as well as human resources, bookkeeping and payroll, advertising and marketing, IT, and other related services. The License Holder is a licensed marijuana producer/processor in the State of Washington responsible for producing a wide-range of popular marijuana products including vape, oils, wax, pre-rolls, capsules and other edibles, as well as distribution of flower and trim in its processed form.

The completion of the Acquisition Transaction created a corporate structure that enables the Company to provide a comprehensive range of services as described above to the License Holder for cultivating, growing, processing, packaging, and distribution of cannabis and cannabis products.

The Company generates returns from the following revenue sources: (i) providing the Services to the License Holder; and (ii) leasing the Facility, Equipment and IP to the License Holder (as defined below).

Principal Products, Services Markets and Distribution

The Company operates through New Leaf USA and the Subsidiaries (together, the “**New Leaf USA Entities**”) as an agricultural technology, services provider and property management company. In particular, the New Leaf USA Entities provide: staffing and human resources, bookkeeping and payroll, advertising and marketing, IT and other consulting and advisory services (collectively, the “**Services**”); real property leases for the integrated cultivation facility located in Seattle, Washington (the “**Facility**”); cultivation, processing, packaging and other related equipment (the “**Equipment**”); and licenses for certain intellectual property, including the NEW LEAF ENTERPRISES, NLE, NLE Inc and DAMA tradenames, the DAMA™, WEED™, NEW LEAF ENTERPRISES™ and NLE™ trademarks, and other related intellectual property, including, domain names and recipes/trade secrets (collectively, the “**IP**”) to the License Holder, in addition to other ancillary services.

The Company generates returns from the following revenue sources: (i) through service contracts with the License Holder; (ii) leasing the Facility, Equipment and IP to the License Holder. Separately, New Leaf USA entered into the option agreement with the License Holder (the “**Option Agreement**”), pursuant to which New Leaf USA may purchase 100% of the outstanding shares of New Leaf Enterprises, Inc. should the WSLCB approve and the laws of Washington State change to allow non-resident owners of the licenses held by New Leaf Enterprises; and (iii) producing and selling hemp-based products.

The Services, Facility lease and related property management, Equipment, IP and other services mentioned above are provided in the United States, through the New Leaf USA Entities.

Hemp-Based Products

The hemp-based products are produced in a third-party certified facility using high-grade broad-spectrum hemp oil for HempCo. All products and batches are third party tested for purity and consistency. The prepared broad-spectrum hemp oil is then either loaded into tincture bottles or liquid capsules (which are then packaged into a bottle). Sourcing the raw materials, their pricing, and availability is the responsibility of the private label manufacturer. Supply of tincture bottles or bottles for liquid capsules can be obtained from multiple sources. HempCo finalized the CBD product offering and announced the launch of damalife.com in the United States on August 10, 2021. Due to capital constraints the Company has not yet been able to market and push online ecommerce sales.

The products have been developed, tested and in the market for multiple years; they are established products with a large, existing white label business known as Full Stack Fulfillment. The Company decided to switch to Full Stack because of their increased number of SKUs and similar attention to quality. Full stack will provide direct-to-consumer order fulfillment services, including product processing and handling, storage, packaging and shipping, in exchange for fees to be further defined in each relevant work order.

The initial hemp product SKUs will be tincture, liquid capsules, and cream based which will contain the same raw material, with the only difference being the packaging/delivery methodology; the different delivery methodology provides options to consumers. In particular, using a tincture allows sublingual absorption, following which the liquid is swallowed; this can be superior to a gastrointestinal introduction of the ingredient only. However, certain customers view the liquid capsules as a more convenient and discrete method to deliver the raw ingredient; it can also be less messy, produce less odor and provide a more concise dosage than the tincture method.

Once products are manufactured and labeled (labeled under the “Dama Hemp” brand), they remain in the Full Stack Fulfillment warehouse, as the fulfillment center. Sales data is electronically pushed to Full Stack’s fulfillment, following which it will pick and pack the products and ship them to the customer.

The products are sold via an online platform. E-Commerce sales have been initially ramped up through contract relationships with affiliate marketers and influencers. The Company has engaged LinkPoint Consulting to provide social media marketing services to HempCo, including the management of an online platform and also provides HempCo with content for informational campaigns aimed at educating potential customers and increasing brand awareness. LinkPoint Consulting has relationships with social media influencers that engaged to promote and sell HempCo products. As these relationships have an initial cost for client acquisition (via sales commissions), it is anticipated that re-marketing efforts and an incentivized recurring/subscription fulfillment model may improve margins following the first month of sale to a client.

Competitive Conditions

Financing for companies in the cannabis sector is more difficult than other sectors, particularly in the United States, due to the fact that cannabis is still classified as a Schedule I drug and illegal at a Federal level. The changing regulatory environment at a state level further complicates financing for companies in this sector.

The fast-growing market for legalized cannabis in both Canada and the U.S. has created a competitive environment for cannabis producers as well as other types of companies who provide goods and services to the cannabis industry. However, there remains a significant lack of traditional sources of bank lending and equity capital available to fund the operations of companies in the cannabis sector. Because of the rapid growth of the cannabis industry, the Company faces competition from other companies in the sector who are accessing the equity capital markets. See “*Risk Factors*”.

Employees, Specialized Skills and Knowledge

As of the date of this AIF, the Company has 2 independent contractors. The operations of the Company are managed by its directors and officers.

As of the date of this AIF, the New Leaf USA Entities have 12 employees and one independent contractor.

New Leaf USA has entered into employment agreements with both Boris Gorodnitsky (the "**Gorodnitsky Employment Agreement**") and Robert Colwell (the "**Colwell Employment Agreement**" and, together with the Gorodnitsky Employment Agreement, the "**Vendor Employment Agreements**"). The provision of services by the New Leaf USA Entities are dependent on the specialized knowledge and technical skill of Mr. Colwell and Mr. Gorodnitsky. In addition, the New Leaf USA Entities have added key hires in strategic areas such as cultivating, harvesting, production, sales and distribution. Additional employees may be recruited from current employees of the License Holder and managed by Mr. Colwell and Mr. Gorodnitsky. The required skills and knowledge to succeed in this industry are available to the Company through these individuals working for ServicesCo, as well as members of the Company's management, directors, officers, and advisory teams.

Economic Dependence

The New Leaf USA Entities have several contracts with License Holder which are integral to the business of each of EquipmentCo, IPCo, RealEstateCo, ServicesCo and HempCo. The Company's revenue streams are entirely dependent upon the operation of the License Holder and the License Holder's compliance with all appropriate regulations in order to maintain its licenses, in the event that such licenses are revoked and terminated, the Company may not be able to carry through with its business plan. See the terms of these contracts above under "*Corporate Structure – Intercorporate Relationships.*"

Cycles

On an overall basis, the business is not considered cyclical or seasonal. Although the supply chain of hemp is slightly seasonal, as hemp crops do not grow in the winter, most manufacturers of scale, such as ION Labs, forecast raw materials with the goal of ensuring year-round service/supply; they also procure hemp oil from other countries, where regulations and quality control permit, and where seasonal restrictions are not relevant due to a year-round growing climate. From a consumer standpoint, as hemp it is not used to treat seasonal afflictions, it is not anticipated that there would be significant seasonal purchasing variation.

Foreign Operations

The New Leaf USA Entities conduct their business in the State of Washington in the United States. Accordingly, the Company's business operations are primarily located in the State of Washington in the United States, via its wholly-owned subsidiaries.

Bankruptcy and Similar Procedures

The Company has not been involved in any bankruptcy, receivership or similar proceedings or any voluntary bankruptcy, receivership or similar proceedings since incorporation or completed during or proposed for the current financial year. To the knowledge of the Company, none of the New Leaf USA Entities has been involved in any bankruptcy, receivership or similar proceedings or any voluntary bankruptcy, receivership or similar proceedings since incorporation or completed during or proposed for the current financial year.

Environmental Protection

The Company complies with the following environmental regulations that fall within each of their individual scopes (i.e. New Leaf USA Entities facility maintenance, NLE cultivation chemicals):

Regulation	Summary
Fertilizers.....	Marijuana growers can use any fertilizer that is registered by the USDA, except for those fertilizer-pesticide products that are not specifically allowed for use on marijuana. The vast majority of the fertilizer-pesticide products that are not specifically allowed for use on marijuana are labeled and intended for use on turf only.
Pesticides.....	Marijuana growers can use any fertilizer that meet WSDA criteria for use in marijuana production.
Clean air and other discharges.....	The Company is compliant with the Puget Sound Clean Air Agency regulations. PSCAA Operating Plan and Notice of Completion are attached
Power and water consumption.....	80% of cultivation lighting is comprised of LED fixtures. This results in 35% reduction in electrical power usage over traditional HID lighting in the cultivation facility. Lighting in the processing and manufacturing facility has been converted to LED fixtures, resulting in 80% reduction in electrical power usage over previous HID fixtures. Automated irrigation system delivers precise amount of water to the plants, eliminating unnecessary runoff.

Market Information, Trends, Commitments, Events and Uncertainties

From jobs to tax revenue to commercial real estate, the marijuana industry has a large – and growing – impact on the broader economy in the United States. The total U.S. economic impact from marijuana sales in 2021 is expected to reach \$92 billion – up more than 30% from last year – and upwards of \$160 billion in 2025, according to analysis from the newly published MJBizFactbook. To measure the industry’s economic impact, MJBizDaily analyzed similar industries and applied a standard multiplier of 3.5 on projected recreational and medical marijuana retail sales. The numbers are a best guess because the marijuana industry’s structure is somewhat unique because it encompasses agricultural, manufacturing and retail activity. The economic impact of the marijuana industry is not the same as supply-chain revenues that are often used to estimate the “total size” of an industry. Rather, the economic multiplier paints a picture of the impact the industry has on the broader economy. In this case, for every \$1 consumers and patients spend at retail locations, an additional \$2.50 will be injected into the economy, much of it at the local level. That impact comes directly from the day-to-day needs of workers in the cannabis industry, including spending on life’s necessities such as housing, transportation, entertainment and more. Marijuana businesses, consumers and patients also pay hundreds of millions of dollars in state and local taxes that are used to fund state and local government activities, including schools and roads. In addition, real estate receives a boost from new retail, manufacturing and agricultural businesses moving into an area or established companies expanding, increasing broader demand for commercial

properties. Cultivating and manufacturing marijuana can require large investments in equipment and technology that boost not only the local economy but also areas throughout the U.S. The list goes on.¹

A total of 37 states and the District of Columbia have legalized marijuana for medical use, 18 of which allow adults to legally use the drug for recreational use as of April 2022. Over the past five years, legalization has spread across the United States. The U.S. legal cannabis market was valued at USD\$11.9 billion in 2018 and is anticipated to expand at a CAGR of 24.1% from 2019 to 2025.²

Washington State cannabis industry contributed \$1.85 billion to gross state product and the sector directly or indirectly supported nearly 18,700 full time equivalent jobs.³

The most significant trends and uncertainties which management expects could impact its business and financial condition are (i) the changing legal and regulatory regime which regulates the production and sale of cannabis and cannabis related products; (ii) the ability of companies, who may receive funds from the sale of cannabis and cannabis related products, to adequately track and legally transfer such funds; and (iii) the ability of companies to raise adequate capital to carry out their business objectives. See “*Risk Factors*”.

Future Developments

The Company will continue to evaluate the changing cannabis regulations and landscape within the United States and internationally in order to expand operations in opportune locations. The Company will also evaluate new technologies which may be utilized in the Company’s facilities in the future. The Company does not currently intend to directly develop new technology itself.

License Holder History

The License Holder was incorporated under the laws of the state of Washington on March 31, 2014. Since incorporation, the License Holder has been active in establishing strategic relationships towards executing the goal of acquiring assets and businesses in the cannabis industry. All issued and outstanding shares of License Holder are owned by Robert Colwell and Boris Gorodnitsky. Below is a description of the principal business of License Holder over the past three years.

Five Year History of License Holder

The License Holder’s primary business consisted of sales of its internally cultivated flower (“**Dama Flower**” and “**Dama Pre-rolls**”) and flower purchased from external farms (“**Weed Flower**”) to retailers. Sales of cannabis oil, both to retailers (“**Dama Oil**”) and to other processors (“**Bulk Oil**”) also comprised a portion of the License Holder’s revenue. Revenue is reported for the following periods:

- (i) Year ended December 31, 2017: \$2,344,231
- (ii) Year ended December 31, 2018: \$2,577,284
- (iii) Year ended December 31, 2019: \$2,481,114
- (iv) Year ended December 31, 2020: \$2,744,104
- (v) Year ended December 31, 2021: \$2,398,422

¹ <https://mjbizdaily.com/marijuana-industry-expected-to-add-92-billion-to-us-economy-in-2021/>

² Grand View Research, Inc. (May, 2019). Legal Marijuana Market Size, Share & Trends Analysis Report By Type (Medical Cannabis, Recreational Cannabis), By Product Type, By Medical Application (Cancer, Mental Disorders), And Segment Forecasts, 2019 – 2025 & <https://www.investopedia.com/articles/investing/111015/future-marijuana-industry-america.asp> <https://www.grandviewresearch.com/press-release/global-legal-marijuana-market>

³ ses.wsu.edu/impact-center/wp-content/uploads/sites/2/2021/01/WA_Cannabis_Final_v2.pdf

In 2017, the License Holder's sales remained relatively the same overall as compared to the prior year; however, on an individual product basis, there was variation in sales. License Holder's sales of Weed Flower to retailers was reduced and the distribution of both internally cultivated and externally purchased flower and trim to other processors was added ("**Bulk Flower and Bulk Trim**"). This resulted in a reduction in the License Holder's packaging and distribution costs, while maintaining its revenue.

This transition is reflective of general changes in the Washington cannabis market, with processors beginning to source material through distribution channels, rather than directly from farms.

Revenue from Dama Oil and Bulk Oil decreased, which management of License Holder believes to be a result of the increased competition and market transition from crude oil to distillate. The License Holder acquired distillation capabilities late in 2017 and, as a result, began to recover of its position in this market segment. In November 2017, the License Holder introduced a line of vape cartridge products ("**Dama Vape**") that utilized this new distillate capacity.

Management of the License Holder believes that reduction in the revenue from the License Holder's Dama Pre-rolls line is a result of industry-wide price decreases in this product segment.

In 2018, the License Holder's increase in overall revenue was driven primarily by the growth in the Dama Vape product line. The License Holder discontinued the sales of its internally cultivated material to other processors. All internally produced flower was converted into products for sale to retailers, while all internally produced trim was utilized for the manufacture of the License Holder's vape products. This change resulted in the increase in revenue from Dama Flower and Dama Vape and in the decrease in revenue from Bulk Flower and Bulk Trim. Revenues from Dama Oil and Bulk Oil lines continued to decline, which management of the License Holder believes to be a result of increasing competition, downward price pressure and diversion of material to the Dama Vape line.

In 2019, the License Holder noted continued growth in its Dama Flower, Dama Pre-rolls and Dama Vape product lines. In March 2019, the License Holder formed a manufacturing and distribution partnership with Winterlife Inc., a Washington state company that had an established product line that has since been discontinued. In May 2019, the License Holder and Winterlife Inc. introduced a new product line consisting of infused pre-rolls ("**Dama Infused Pre-rolls**").

Outdoor and greenhouse production of flower in Washington state declined steeply in 2018 and created a shortage of available materials in 2019. Management of the License Holder believes this is a result of an attempt at correcting the previous oversupply of outdoor material that occurred in the previous years, leading to market consolidation and a number of cultivators reducing or discontinuing production. As a consequence, the License Holder was unable to procure sufficient material for its Weed Flower product line in early 2019, resulting in lower revenue during the first half of the year.

With the conclusion of the regional fall harvest in 2021, a number of factors, including the impact of COVID-19 and related adverse effects, led to the largest oversaturation of biomass in the history of Washington State since the legalization of cannabis in the State. As a result, the License Holder experienced lower margins and sales volume regionally.

The Company, through the New Leaf USA Entities, commenced or continued the advancement of several programs in 2021 to develop new products, enhance existing products, equipment upgrades and process efficiencies. To date these efforts have included:

Product Brand Updates

- Continued developed the Goodies brand intended as umbrella branding for the License Holder's edibles product lines. Under the Goodies brand, the Company formulated a caramels product line, including hard and soft caramels with all new packaging.

- Developed Space Balls, a chewy candy with a crunchy shell, in several flavors, including Strawberry Margarita and Passion Orange Guava.
- Developed the Dama Hemp brand, a new line of CBD-only products including tinctures, capsules, topicals and gummies. Distribution was setup through an e-commerce platform; however, due to limited funding the marketing efforts have not been initiated.
- Developed and licensed Dama Select, a new Dama brand variation for high-end greenhouse flower.
- Developed and licensed a new Weed Flower brand variation for mid-range outdoor flower.
- Developed and licensed Tasty Tokes, a super potent infused pre-roll made with 90% pure distillate and kief, launching with three fruity flavors: Creamsicle, Mango and Wild Cherry.
- Developed Green State, a Washington-themed brand aimed at telling the story of the Washington terroir through its farms, greenhouses and culture and offering a glimpse of the variety of techniques growers use throughout Washington State. Green State is offered in two value tiers, Standard or Select. The pivot from the Weed brand to Green State has not yet been finalized.
- Finalized and produced full spectrum marketing and merchandising collateral to support brand visibility and market penetration initiatives.
- Launched limited marketing efforts alongside brand upgrade and the new Goodies brand which includes advertising efforts, apparel, and brand promotions.
- The Company is in final phase of development and branding of a new beverage line. This will be a low dose THC and CBD craft beverage. This product line will be sold in the legal THC markets and also has the ability to be sold nationally as a CBD only product. The package design and formulation are ready to go and is licensed to the License Holder for entry into the market once funds are available to commence an initial patch and market the products.
- Entered into an exclusive Washington State commercial packaging, licensing and distribution agreement with Colorado-based Long Play Inc., licensors of the cannabis brand "WILLIE'S RESERVE".
- Update and integrate branding across flower products lineup (Dama and Weed Flower).

Cultivation Facility Upgrades

- Carried out departmental maintenance and upgrades to streamline future capabilities in anticipation of regional biomass inventories draw down.
- Continued development of in-house cannabis strains, expected to launch in 2022.
- Higher efficiency lighting with increased light output. The License Holder expects a 25-35% increase in production volume of usable material based on initial tests of the new lighting configuration. Installed a trellis system to improve light utilization for increased flower yields and quality.
- Installed dehumidification and environmental control systems resulting in increase in quality of produced biomass and reduction of loss due to plant pathogens.

- Upgraded environmental controls in the company's greenhouse to increase utilization during winter.
- Upgraded air circulation and temperature controls.
- Upgraded IT infrastructure throughout the facility
- Recruited and hired a new Cultivation Manager (Kevin Joswick)
- Upgraded irrigation systems to improve efficiency.
- Built out a drying and curing facility with environmental controls to improve efficiency and quality of flower.
- The License Holder realized a 15% increase in total material output, resulting from improvements in lighting, environmental, and irrigation systems completed by New Leaf Equipment Co. The License Holder expects additional 5-10% increase from existing improvements as the production pipeline is converted into ready material.

Processing Upgrades

- Advanced changes to the drying and curing process that will result in increases in quality of flower production for the License Holder.
- Purchased automated trimmer and sorter, increasing processing capacity to 500 lbs of flower per week.
- Purchased automated pre-roll tamper and sifter which is increasing production capabilities by approximately 100%
- Purchased and deployed sifting equipment to improve manufacturing efficiency and quality of pre-rolls.
- Continuing upgrades to drying and curing facility will result in increase of quality of flower output.

Commercial Kitchen Upgrades

- Purchased a large set of commercial kitchen equipment and supplies at a highly favorable liquidation cost.
- Purchased a depositor and a batch cooker to increase product output capacity of the caramels and hard candy lines.
- Completing construction build out of commercial kitchen. Installed floor drains, epoxy coated floors, insulated ceilings, new paint, and needed sinks and clean areas.
- Completed buildout and permitting of the commercial kitchen, allowing the License Holder to transfer edible operations into the new completed kitchen.
- Completed buildout of a specialized climate-controlled area for hard candy manufacturing and storage.
- Purchased a large panner for the License Holder, enabling manufacturing of Space Balls, coated candy, and other products.

- Implemented a new standard operating procedure provided to the License Holder for hard candy manufacturing, which should lower NLE's production labor cost by 20%.
- Initiated the expansion of the commercial kitchen designed for high volume manufacturing of edible products including THC Beverage.

Process Improvements

- Development of newly branded, structured, and responsive marketing approach across Dama and Weed brand variations allowing for consumer feedback to aid faster time-to-market development of new product lines aligned to market trend data.
- New Leaf USA has authorized the implementation of an integrated software system for scheduling, managing, and tracking cultivation operations. This system has increased efficiencies in the cultivation cycle, improve the ability to identify issues, implement corrective measures and improvements (such as the introduction of new strains), and facilitate inter-departmental communication in support of lean manufacturing processes.

Sales Enhancements

- New Leaf Services hired and expanded the sales team to include dedicated field representatives to support relationship building, sample distribution and merchandising. Recruited and hired a Director of Sales (David Weston) however he ultimately did not work out and New Leaf has not currently found a replacement. Consequently, this department has contracted.
- Aided in marketing strategies including distribution of samples to retailers, with structured follow-up and incentive closing protocols.
- Introduction and training to introduce sales team to impact of new dynamic supply processes and the need to capture timely market and trend data in order to effectively respond to, achieve or grow category leadership.
- Engaged Fire Creative Marketing Co. and founder Jessica Ivey to lead the Marketing efforts for the Company; however, Jessica and New Leaf parted ways.
- Continued rollout of sales, marketing and merchandising collateral to support brand visibility and market penetration initiatives.
- Developed performance-based marketing for retailers with high visibility sales aids including toppers, banners, hangers, pop-ups, print, fashion, and digital marketing/merchandising collateral.

After some stabilization in biomass pricing and supply in 2019 and 2020, the 2021-2022 harvest season saw an oversupply of biomass resulting in increased competition and a drop in wholesale biomass pricing. Oversupply was the result of many factors, including the effects of COVID-19 and increased supply from producers in response to price stabilization in the previous two seasons. Price to retailers for packaged flower and pre-rolls dropped by over 50% in Q3/Q4 2021. In order to protect its revenues from fluctuations in biomass pricing, New Leaf USA has put a greater focus on value-added products and the brands and formulations behind those product offerings. New Leaf USA, through its subsidiaries, began developing formulations for products such as infused edibles, beverages, topicals, vape cartridges, and other concentrates. Other initiatives aimed towards stabilizing revenues include growing brand value through quality improvements, updated branding, increased marketing, and growth in market penetration. These are ongoing initiatives and will be ramped up as cash flow improves. Looking forward, New Leaf believes that the cannabis market in Washington is evolving in the direction of ever greater commodification of biomass production, leading to downward price pressure in the mid to low-level

biomass market. As a response, the License Holder is shifting towards biomass procurement as opposed to in-house cultivation; therefore, New Leaf Services has reduced the workforce by ~50% to maximize margins in a leaner operation. In addition, New Leaf is developing relationships with other processors and retailers to leverage partnership opportunities and aid the license holder in getting New Leaf's brands and value-add formulations into a wider variety of retail locations in the State of Washington.

Principal Products, Services, Markets, Distribution and Employees

Lists of currently available and new products follow. All products are produced at and distributed from the Facility. The License Holder is limited to acquiring its raw materials from WSLCB-licensed producers/processors. The number of such licensees is finite. As of the date of this AIF, there were less than 1,000 active producer/processor licenses in the State of Washington. The raw materials are acquired on the open market from licensed tier 1, 2 or 3 producer/processors. Market prices fluctuate based upon supply and demand and there is no guarantee that the License Holder will be able to acquire sufficient materials for its desired production at a low enough cost point. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the License Holder. See "*Risk Factors*."

The License Holder currently has the following products, all of which are produced and distributed from the Facility:

- (i) Dama Premium – premium dried flower produced from plants cultivated at the Facility. Twelve strains are currently in production, and the License Holder continues to evaluate new strains. The product is available in 1g, 2g, 3.5g, 7g, and 14g packages.
- (ii) Dama Budlets – smaller dried flower produced from plants cultivated at Facility, utilizing the same strains as Dama Premium Flower. The product is available in 3.5g, 7g, and 14g packages.
- (iii) Dama Pre-rolls – pre-rolled cannabis cigarettes produced from internally cultivated material and purchased greenhouse material. A package contains two cigarettes, each containing 0.5g of material.
- (iv) Dama Infused Pre-rolls – pre-rolled cannabis cigarettes, additionally infused with cannabis distillate.
- (v) Dama Oil – ethanol-extracted concentrate produced from internally cultivated material and purchased greenhouse material. The product is available in 0.5g and 1g packages.
- (vi) Dama Capsules – the capsules line consists of three products, representing three THC to CBD ratios, sold in packages with each package containing 10 capsules:
 - (a) Stimulating - 10mg THC
 - (b) Calming - 10mg CBD, 10mg THC
 - (c) Comforting - 20mg CBD, 5mg THC
- (vii) Weed Flower – dried flower manufactured from material purchased from external outdoor and greenhouse producers. The product is available in 3.5g, 7g, 14g, and 28g packages.
- (viii) Tasty Tokes – a super potent infused pre-roll made with 90% pure distillate and kief, available in three fruity flavors: Creamsicle, Mango and Wild Cherry.

- (ix) Goodies – premium infused edibles with easy microdose control (two 5mg THC servings for a total of 10mg), available as both soft and hard caramels and as hard candies in a variety of flavors, such as blue raspberry, wild strawberry, mango, and green apple.

Additionally, New Leaf has continued development of the flagship line of ASTAR cannabis infused beverages in collaboration with Seattle's Schilling Hard Cider. This product represents the Company's entry into the cannabis infused beverage marketplace by developing a family of cannabis infused beverage products. The proposed beverages are formulated to contain 3-10mg of THC and designed to have the same drinkability as beer or hard cider.

License Holder is dependent on the IP provided by IPCo. See "*Description of Business – Proprietary Protection.*"

Currently, the License Holder has sale representatives that, in compliance with all WSLCB regulations and guidance, deliver product samples to licensed cannabis retailers, that visit such retailers to educate retailers' staff regarding available products and that coordinate with such retailers to conduct educational and marketing events for customers and staff (which such events typically feature a display booth with information on the License Holder's products, and are typically combined with discounts on selected products).

The License Holder's retail products are distributed directly to retailers holding a cannabis retailer license in Washington State, and bulk products are distributed directly to processors holding a cannabis processor license in Washington State. As of March 31, 2022, the License Holder currently has 65 retailer accounts, with approximately 50 accounts active per month. The License Holder's sales staff currently consists of a sales manager and one sales representative. The License Holder also employs one procurement and bulk sales representative responsible for purchasing and bulk sales of outdoor and greenhouse material to processors. Both retailers and bulk sales customers place orders directly through their respective account representatives via phone or email. Sales representatives deliver 80% of orders, with 20% of orders delivered by licensed transportation companies.

The Company's ability to successfully implement its business plan depends in part on IPCo's ability to obtain, maintain and build brand recognition using trademarks, service marks, trade dress, domain names and other intellectual property rights, including the names and logos. If IPCo's efforts to protect its intellectual property are unsuccessful or inadequate, or if any third party misappropriates or infringes on its intellectual property, the value of its brands may be harmed, which could have a material adverse effect on the Company's business and might prevent its brands from achieving or maintaining market acceptance.

Foreign Operations

The License Holder does not have dependence on operations outside of the United States; however, the License Holder purchases vape cartridges from a Chinese supplier.

Other Matters

The License Holder's assets are subject to the same liens and charges filed against the Equipment in respect of unpaid taxes of the License Holder. Unless and until such encumbrances are satisfied and discharged in full, there is risk that the License Holder's assets could be subject to seizure or forfeiture. Any loss of such assets could have an adverse effect on the License Holder, and therefore, have an adverse effect on the Company's business, operating results and financial condition.

REGULATORY OVERVIEW

The Company's flagship investments are in Washington State; currently management expects the legal and regulatory regimes in the United States (on a federal level), Washington State, and Canada to be the most relevant to its business.

On February 8, 2018, the Canadian Securities Administrators published Staff Notice 51-352 (Revised) *Issuers with U.S. Marijuana-Related Activities* ("**Staff Notice 51-352**") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in required disclosure documents.

The Company is involved in activities that, according to Staff Notice 51-352, would categorize the Company as a U.S. Marijuana Issuer with ancillary involvement in the cultivation and distribution of cannabis in the State of Washington. As of the date this AIF, the Company has no direct or indirect cannabis-related activity outside of the State of Washington. As a result of the Company's investments in the State of Washington, the Company is subject to Staff Notice 51-352 and accordingly provides the following disclosure:

The Company, via its wholly-owned subsidiaries, operates in the United States as more specifically described below.

State	Companies	Type of Investment	Permitted Number of Facilities
Washington	New Leaf USA EquipmentCo IPCo RealEstateCo ServicesCo HempCo	100% Equity Ownership	N/A ⁽¹⁾

Notes:

- (1) The Company, through the New Leaf USA Entities, holds the Assets, including real estate (the Facility) leased to the License Holder. The Facility is designed for cultivation and processing totalling approximately 30,000 square feet in Seattle, Washington as well as the Equipment, the IP and other tangible and intangible assets. The foregoing Assets are held by the New Leaf USA Entities and are classified as "ancillary" involvement in the United States cannabis industry for the purpose of Staff Notice 51-352. The WSLCB regulates Washington's marijuana regulatory program. Applicable regulation in Washington requires licensed operators and all beneficial owners or true parties in interest, to be resident of Washington. As a result, the Company, as a publicly listed company domiciled outside of Washington, is unable at this time to acquire a direct license under Washington's marijuana regulatory program. For further information on the License Holder in Washington see "*Legal and Regulatory Overview – Washington State – Washington Regulations*" below.

United States Federal Overview

In the United States, at the time of this AIF, thirty-seven states, Washington D.C. Puerto Rico, the Northern Mariana Islands, the U.S. Virgin Islands, and Guam have legalized medical marijuana, while eighteen states, Washington D.C., Guam and the Northern Mariana Islands have also legalized recreational marijuana. **At the federal level, however, cannabis currently remains a Schedule I controlled substance under the CSA. Under United States federal law, a Schedule I drug or substance is definitively determined to have 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 remains illegal under United States federal law.

Although federally illegal, the U.S. federal government's approach to enforcement of such laws has, at least until recently, trended toward non-enforcement. On August 29, 2013, the United States Department of Justice (the "DOJ") issued the Cole Memorandum to all U.S. Attorneys' offices (federal prosecutors). The Cole Memorandum generally directed U.S. Attorneys not to prioritize the enforcement of federal marijuana laws against individuals and businesses that rigorously comply with state regulatory provisions in states with strictly-regulated medical or recreational cannabis programs. The Cole Memorandum, while not legally binding, served as prosecutorial guidance, and laid a framework for managing the conflict between state and federal laws concerning state-regulated marijuana businesses.

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 removed the DOJ's guidance to U.S. Attorneys that state-regulated marijuana industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

In addition to his revocation of the Cole Memorandum, former Attorney General Sessions also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum confirmed the rescission of the Cole Memorandum and explained the rationale of the DOJ in so doing: the Cole Memorandum was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual ("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 emphasized that marijuana is a Schedule I controlled substance and reiterated the statutory construction that it is a "dangerous drug and that marijuana activity is a serious crime," it did not otherwise indicate that the prosecution of marijuana-related offenses would become a renewed DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide to prosecutorial discretion that remained firmly within the ambit of U.S. Attorneys regarding whether or not to prosecute marijuana-related offenses. U.S. Attorneys may or may not elect to individually continue to exercise their discretion in a manner consistent with the Cole Memorandum's guidance.

Former Attorney General William Barr stated during his confirmation hearing on January 15, 2018, that "my approach to this would be not to upset settled expectations and the reliant interests that have arisen as a result of the Cole memorandum." He further testified to the Senate Appropriations Committee on April 10, 2019 that conflicting federal and state marijuana laws have created an "intolerable" situation for the Department of Justice. He testified that if there is no consensus for one uniform federal rule against marijuana, the way to go is to permit a more federalist approach so states can make their own decisions within the framework of the federal law.

In his 2021 confirmation hearings and published statements, Attorney General Merrick Garland repeatedly affirmed his intention for the DOJ to respect the framework of state-legalization regimes: "I do not think it the best use of the Department's limited resources to pursue prosecutions of those who are complying with the laws in states that have legalized and are effectively regulating marijuana."

The Strengthening the Tenth Amendment Through Entrusting States (STATES) Act, was proposed in the 115th United States Congress (June 7, 2018). It would have provided exemptions for "any person acting in compliance with State law relating to the manufacture, production, possession, distribution, dispensation, administration or delivery" of marijuana, effectively restoring the protections of the Cole Memorandum. It did not pass, but the STATES Act was reintroduced in the 116th Congress on April 4, 2019, in both the House and the Senate. The likelihood of its passage and being signed into law cannot be predicted. 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

United States has always reserved the right to enforce federal law in regard to the production, sale, and disbursement of medical or recreational marijuana, even if state law sanctioned such production, sale, and disbursement.

The Agriculture Improvement Act of 2018 (the “**2018 Farm Bill**”) has altered the federal regulatory structure with respect to the production, processing and distribution of hemp and hemp-derived products. The 2018 Farm Bill defines “hemp” as any part, or derivative of, the *Cannabis sativa* L. plant containing less than 0.3 percent THC by weight. The 2018 Farm Bill also amends the Controlled Substances Act of 1970 by declassifying hemp as a Schedule I controlled substance and shifting its supervision from the DEA to the USDA.

The 2018 Farm Bill expressly preserves the U.S. Food and Drug Administration (FDA) authority over hemp-derived products. The FDA has issued a statement (the “**FDA Statement**”) clarifying its position on CBD products following passage of the 2018 Farm Bill. The FDA Statement notes that the 2018 Farm Bill expressly preserves the FDA’s authority over hemp-derived products. The FDA Statement emphasizes that although hemp is no longer an illegal substance under federal law, the FDA continues to regulate hemp products under the Food, Drug, and Cosmetic Act (“**FD&C Act**”) and Section 351 of the Public Health Service Act. Therefore, any hemp-derived product marketed with a claim of therapeutic benefit must be approved by the FDA before it can be sold. The FDA Statement also confirms that the addition of CBD to food products and dietary supplements is unlawful. The FDA Statement clarifies that the FDA does not distinguish the substance’s source when exercising its regulatory authority, including whether a product originates from hemp or otherwise.

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 could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. 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, the U.S. Department of the Treasury issued the FinCEN Memorandum outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses. Under these guidelines, financial institutions must submit a 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: (i) marijuana limited; (ii) marijuana priority; and (iii) 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.

On the same day as the FinCEN Memorandum was published, the DOJ issued a further memorandum directing federal 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 Cole Memo and the subsequent DOJ memorandum regarding financial transactions have been rescinded as of January 4, 2018, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

However, the revocation of the Cole Memorandum and the subsequent DOJ memorandum regarding financial transactions 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. 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.

In addition, the SAFE Banking Act (H.R. 1996; full title Secure and Fair Enforcement (SAFE) Act) would ensure that financial institutions, including banks and credit unions, are afforded safe harbor against federal forfeiture actions and liabilities for providing financial services to a marijuana-related business. The SAFE Act offers protections by prohibiting federal banking regulators from: (a) terminating or limiting

deposit insurance solely for providing financial services to a cannabis-related legitimate business or ancillary service provider; (b) prohibiting, penalizing, or discouraging a bank from providing financial services to a cannabis-related legitimate business or ancillary service provider; (c) recommending, incentivizing, or encouraging a bank not to offer, downgrade or cancel financial services solely because cannabis-related legitimate business; or (d) taking adverse action on a loan made to a cannabis-related legitimate business or its employee, owner, or operator or an owner or operator of real estate or equipment that is leased to a cannabis-related legitimate business. The SAFE Banking Act was first introduced in 2019; it was recently reintroduced in 2021 by a bipartisan group of over 100 members of the House. On March 18, 2021, the SAFE Act was reintroduced in the House of Representatives. On March 23, 2021, the bill was reintroduced in the Senate as well. On April 19, 2021 the House passed the SAFE Act by a vote of 321-101. In an attempt to help get the SAFE Act passed in the Senate, Representative Ed Perlmutter proposed that it be included as an amendment to the National Defense Authorization Act (the “NDAA”). The SAFE Act was added to the NDAA by a voice vote on September 21, 2021, and the NDAA passed the House in a 316-113 vote on September 23, 2021. Despite its continued success in the House, the SAFE Act was removed from the version of the NDAA passed by the Senate on December 7, 2021.

Enforcement of U.S. Federal Laws

For the reasons set forth above, the Company’s current and future investments in the United States 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 other jurisdiction.

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.

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

U.S. Enforcement Proceedings

The Cole Memorandum outlined certain priorities for the DOJ relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the DOJ has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard.

On January 4, 2018, the Cole Memorandum was revoked by Attorney General Sessions.

Although the Cole Memorandum has been rescinded, legislative and discretionary safeguard for the medical cannabis industry remained in place. For instance, the Rohrabacher Blumenauer Amendment (originally the Rohrabacher Farr Amendment), has been included in federal annual spending bills since 2014. This amendment restricts the Department of Justice from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. The Rohrabacher Blumenauer Amendment was renewed by the U.S. Congress as part of the FY2021 omnibus spending bill and has since been extended again until September 20, 2022. Furthermore, as of this AIF, United States Attorney General Merrick Garland has repeatedly affirmed his intention for the DOJ to respect the framework of state-legalization regimes and avoid the incursion of federal expenditures pursuing prosecution of entities complying with state-based cannabis laws.

Compliance with Applicable State Law in the United States

To the Company's knowledge, the License Holder complies with applicable U.S. state licensing requirement as follows: (1) the License Holder is licensed, pursuant to Washington State law, to cultivate, possess, process and/or distribute marijuana and manufacture and/or distribute marijuana-derived products in such state; (2) renewal dates for such license are docketed by legal counsel and/or other advisors; (3) internal audits of the License Holder's business activities are conducted to ensure compliance with applicable state law; (4) each individual working within the Facility is provided with an employee handbook that outlines internal standard operating procedures in connection the cultivation, processing, and distribution of marijuana to ensure that all marijuana inventory and proceeds from the sale of such marijuana to licensed retailers is properly accounted for; (5) each room where marijuana inventory exists is monitored by video surveillance; (6) software is used to track marijuana inventory from seed to sale; and (7) the License Holder is contractually obligated to the New Leaf USA Entities to comply with applicable Washington State law in connection with the cultivation, processing, and/or distribution of marijuana.

The Company's United States legal counsel will also review, from time to time, the licenses and documents referenced above in order to confirm such information and identify any deficiencies.

To the Company's knowledge, the License Holder's license is in good standing for the cultivation, processing, and distribution of marijuana in Washington State, in compliance with the state marijuana regulatory program.

The Company has engaged United States legal counsel to advise the Company in connection with compliance with Washington law on an ongoing basis. The Company will continue to work closely with United States counsel to develop and improve its internal compliance procedures and will defer to their legal opinions and risk mitigation guidance regarding Washington's regulatory framework.

Continued Review of Changes in Law

To the Company's knowledge, aside from complying with Washington State law, the License Holder takes the following steps to ensure its marijuana operations are conducted in a manner consistent with the United States federal enforcement priorities first articulated in the Cole Memorandum and still presently useful as a guide to compliance efforts. The Company undertakes actions to: (1) prevent revenue from marijuana from going to criminal enterprises, gangs, and cartels by conducting background checks on each owner of an licensee, employee, and/or prospective employee and by ensuring that all marijuana inventory and proceeds from the sale of such marijuana are property accounted for and tracked; (2) prevent the diversion of marijuana from states where it is legal under state law (in some form) to other states by only dispensing marijuana through licensed dispensaries located in Washington state; (3) prevent state authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity by prohibiting the sale of any inventory other than marijuana inventory and accessories; (4) prevent violence and the use of firearms in the cultivation and distribution

of marijuana by ensuring that each room marijuana inventory and/or proceeds from the sale of such inventory enters is monitored by video surveillance, prohibiting employees from bringing firearms on the premises, and ensuring that safes are used to store large amounts of proceeds from the sale of marijuana inventory; (5) prevent drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use by prohibiting the consumption of marijuana on the premises, prohibiting the usage of harmful pesticides on marijuana inventory, and testing marijuana inventory to confirm a lack of harmful pesticides and ideal cannabinoid levels; (6) prevent the growing of marijuana on federal lands and the attendant public safety and environmental dangers posed by unregulated marijuana production on federal lands by only cultivating, possessing, or dispensing marijuana on private property with all requisite licenses and permits to cultivate, possess, and/or distribute marijuana on such private property; and (7) prevent marijuana possession or use on federal property by only cultivating, possessing, and dispensing marijuana on private property with all requisite licenses and permits to cultivate, possess and/or distribute marijuana on such private property.

On January 4, 2018, the DOJ rescinded the Cole Memorandum. However, subsequent developments in legislation and DOJ-priorities recommend that the generic principles of the Cole Memorandum still be considered and pursued as a guide to compliance and complementary effort to satisfying evolving DOJ perspectives on state-legal cannabis operations.

The Company's United States legal counsel will review, from time to time, the License Holder's procedures with respect to the Cole Memorandum in order to confirm if its operations are conducted in a manner consistent with the guidelines noted in the Cole Memorandum. Despite the rescission of the Cole Memorandum, the DOJ continues to have significant prosecutorial discretion as to the enforcement of federal drug laws; this discretion remained and has been reiterated as the determinative policy of the DOJ even after the Cole memorandum was rescinded.

Ability to Access Public and Private Capital

The Company has, and intends to continue to have, access to equity financing from the prospectus exempt (private placement) markets in Canada. To date, the Company has successfully completed several financing transactions. On February 26, 2019, the Company issued 12,000,000 Common Shares in an initial financing round for aggregate gross proceeds of \$600,000. The Company subsequently completed the IPO for aggregate gross proceeds of \$1,192,217, the Second Tranche for aggregate gross proceeds of \$747,600 and the Supplement Offering for aggregate gross proceeds of \$1,500,000. In addition, the Company has also established the ATM Program for the sale of Common Shares for up to \$10,000,000 in gross aggregate proceeds.

If such equity and/or debt financing was no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would have access to raise equity and/or debt financing privately. Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See "*Risk Factors*".

Financial Transactions

Certain financial institutions in Canada and the U.S. will not allow companies who generate funds from the sale of cannabis and cannabis related products to open bank accounts or process the transfer of funds from the sale of cannabis.

Specifically, the federal illegality of marijuana in the U.S. means that financial transactions involving proceeds generated by marijuana-related conduct can form the basis for prosecution under the money

laundering statutes (18 U.S.C. § 1956 and 1957), the unlicensed money transmitter statute (18 U.S.C. § 1960), and the Bank Secrecy Act (the “BSA”). Consequently, businesses involved in the marijuana industry often have difficulty finding a bank willing to accept their business. Banks who do accept deposits from marijuana-related businesses in the U.S. must do so in compliance with the FinCEN Memorandum. The FinCEN Memorandum provides guidelines to banks on how to accept deposits from marijuana-related businesses while remaining compliant with the BSA. The Financial Crime Enforcement Network has not rescinded the FinCEN Memorandum following the U.S. Department of Justice’s January 4, 2018 announcement rescinding the Cole Memorandum.

As of March 31, 2019, the Financial Crime Enforcement Network reports that, nationwide, 493 banks and 140 credit unions are providing banking services to marijuana related businesses. In Washington State there are presently three banks and two credit unions that will open accounts for, and accept funds from, state licensed marijuana businesses. Given the regulatory uncertainty with respect to banking and cannabis in the United States, the ability to transfer any funds owed to the Company by the Subsidiaries into bank accounts held by the Company outside the United States may be eliminated and/or hampered at any time. In the foreseeable future, the Company expects any amounts payable by the Subsidiaries to the Company to be paid to New Leaf USA or deployed in other investments in the United States. The Company expects to fund its operations through the Subsidiaries’ cash flow from operations. The Company may also consider future debt or equity financings.

Washington State Overview

The following sections present an overview of market and regulatory conditions for the marijuana industry in the State of Washington, and is presented as of date of this AIF, unless otherwise indicated. Although the Company’s activities are classified as “ancillary” involvement in the United States cannabis industry and are expected to be 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 provide a defense to any federal proceeding which may be brought against the Company.

Washington Regulations

Washington has authorized the cultivation, possession, processing, and retail sale of marijuana by certain licensed Washington businesses. The WSLCB regulates Washington’s commercial marijuana marketplace. The New Leaf Entities do not directly engage in marijuana business activities, or the commercial marijuana marketplace, nor do they exercise control over the License Holder or any other licensed marijuana business. New Leaf USA is advised by legal counsel and/or other advisors in connection with its compliance with Washington’s marijuana regulatory program. New Leaf USA only engages in transactions with Washington marijuana businesses that hold licenses in good standing and in compliance with Washington’s marijuana regulatory program. To the extent required by Washington’s marijuana regulatory program, to the Company’s knowledge, New Leaf USA and/or the Subsidiaries’ contractual relationship with Washington marijuana businesses has been fully disclosed to the WSLCB.

Upon exercise of the Option to purchase the business, as permitted and approved by the WSLCB, of the License Holder, should the laws of Washington State change to allow non-resident owners of such license, the Company would be subject to the WSLCB licensing and regulatory program as described below.

Application and Licensing

The WSLCB is not currently accepting applications for licenses or issuing new licenses. There are currently no plans to reopen the window for the issuance of new licenses. The WSLCB has stated it has no plans to reopen the window for applying for a new license. Consequently, the only way to acquire a marijuana license in Washington State is to purchase an interest in a business entity, subject to the approval of the WSLCB, that holds a license that has already been issued. Doing so requires a WSLCB application to acquire, or be added to, the existing license. The requirements and process for acquiring or

being added to an existing license are the same as if the applicant were applying for a new license, as below.

Every individual with an ownership or equity interest, with a right to receive a percentage of gross or net profits, or who exercises control over a licensed marijuana operator, must apply for licensing with the WSLCB and be approved. Each applicant must be over 21 years of age and a Washington resident.

An applicant must provide the WSLCB with the applicant's organizational and operational documents, including the entity's operating agreement and a detailed operating plan, in order to verify that the proposed business meets the minimum requirements for licensing.

An applicant must provide the WSLCB the applicant's financial statements to verify the source of funds for the business, including any acquisition agreements and any agreements for the development of an operating marijuana business, as well as financial documents verifying the source of funds for all purchases of, and material changes to, the business. An applicant must disclose any financiers which are providing funds to be used by the marijuana business, and such financiers, except banks and other financial institutions, are subject to a substantially similar application process through the WSLCB.

An applicant must provide to the WSLCB certain information regarding the applicant's and the applicant's spouse's: personal and criminal history, including fingerprints for the submission of a criminal records background check with the Washington State Patrol and the U.S. Federal Bureau of Investigation. Conviction for certain serious crimes, or over a certain number of points (specific convictions are subject to a scoring-rubric) for more minor crimes, may disqualify an applicant from holding a marijuana license.

Any change in the ownership of a cannabis entity must receive prior approval through the WSLCB and undergo a review of the same rigor and breadth as an initial application.

Operations

An applicant must provide an operational plan that includes a detailed description of all applicable areas of: security; traceability; employee qualifications and training; transportation of product including packaging for transportation; destruction of waste product; description of growing operation including growing media, size of grow space allocated for plant production, space allocated for any other business activity, description of all equipment used in the production process, and a list of soil amendments, fertilizers, other crop production aids, or pesticides, utilized in the production process; description of the types of products to be processed with a complete description of all equipment including all cannabis-infused edible processing facility equipment and solvents, gases, chemicals and other compounds used to create extracts and for processing of marijuana-infused products; testing procedures and protocols; employee compensation and benefits data; description of packaging and labeling of products; and the array of products are to be sold and how are the products to be displayed to consumers.

Any change in the operational plan (e.g. adding volatiles processing capabilities, expanding the floorplan of the marijuana business, etc.) of a licensed cannabis entity must receive prior approval through the WSLCB, and undergoes a review of the same rigor and breadth as an initial application.

Inspections

The WSLCB sends an enforcement officer to inspect each proposed marijuana facility (a) prior to granting approval to begin authorized cultivation, processing, or dispensing and (b) periodically at their discretion. Licensed operators must permit WSLCB enforcement officers to inspect the premises, vehicles, records, and marijuana products at any time, and random inspections are conducted frequently by enforcement officers.

Security Requirements

The WSLCB requires all licensed operators, employees, and non-employee visitors, other than retail customers, to display an identification badge at all times on the premises. Each licensed operator must keep a log of all visitors, other than retail customers, to the premises.

All premises must have a security alarm system on all perimeter entry points and perimeter windows. All premises must have a complete video surveillance system with minimum required camera resolution and a surveillance system storage device or internet protocol storage compatibility that: (a) records continuously for 24 hours per day, (b) has cameras in fixed places that allow for the clear identification of persons and activities in the controlled areas of the premises, including grow rooms, processing rooms, storage rooms, disposal rooms/areas and point of sale rooms, (c) has the capability of recording clear images and displays the time and date of the recording, (d) has the capability for retention of recordings for at least 45 days; and (e) has capability of recording clear images at night.

Traceability and Inventory Tracking

Washington requires use of a seed-to-sale tracking system that properly integrates with the state's system of record. Licensed operators must use an inventory control system that identifies and tracks the plant from the time it reaches a height of six inches, through harvest, processing, packaging, wholesale, and retail sale. Licensed operators must also manifest and quarantine all marijuana to be delivered to another licensed operator, or destroyed as waste, for a period of at least 24 hours in order to allow for inspection by WSLCB enforcement officers. Vehicles transporting marijuana must have: (i) a vehicle security system, including separate, secure, locking compartment to store any marijuana product; and (ii) a transportation manifest reported through the seed-to-sale tracking system, including (a) the departure time, (b) name, location, address and license number of the originating licensed operator, (c) quantity and form of product to be delivered, (d) estimated time of arrival, and (e) name of the employee and identification of the vehicle delivering the product. Licensed operators must retain traceability records for three years and make records available upon request for inspection by the WSLCB or other law enforcement.

Pricing and Prohibited Practices

Marijuana and marijuana products must be sold at a price indicative of true value. Licensed retailers may not sell marijuana products below the wholesale acquisition price of the product. Licensed marijuana producers and processors are prohibited from offering conditional sales, discounts, loans, rebates, free products, or any agreement that causes undue influence over another licensed operator.

Testing

The WSLCB requires quality assurance testing for of each lot of final marijuana product be conducted by an independent, state certified, third-party testing laboratory, with a statistically significant number of samples, using acceptable methodologies to ensure that all lots manufactured of each marijuana product are adequately assessed for contaminants, and the cannabinoid profile is correctly labeled for consumers. The quality assurance tests required for marijuana flowers and infused products currently include moisture content, potency analysis, foreign matter inspection, microbiological screening, and residual solvent levels.

The results of the inspection and testing are submitted to the WSLCB through the traceability system. In conjunction with the Washington State Department of Agriculture, the WSLCB conducts random screening for pesticide residues. A lot of cannabis product may not move forward in processing, delivery, or sale without a passing test for that lot reported by the independent lab itself into the traceability system. All test results are required to be provided to retailers and/or end consumers upon request.

Packaging and Labelling

Each package containing marijuana, or a marijuana product, must have affixed a label including required warnings for all marijuana products and for the specific product type. The label must also include identifying information for the producer and retailer of the marijuana product. Each edible cannabis-infused product must be packaged in child-safe packaging and contain under 10 mg of active THC per serving. Licensed marijuana retailers must make testing results available to the customer upon request.

Advertising

The WSLCB restricts advertising by licensee marijuana operators. Advertising in any form is prohibited within 1,000 feet of school grounds, playgrounds, recreation centers or facilities, child care centers, public parks, libraries, or game arcades with unrestricted admission. Advertising is also prohibited on public transit vehicles or transit shelters, and on any publicly owned or operated property. Advertising visible from a public roadway may only contain the name, location, and nature of the business. No advertising may target youth or use objects or images likely to be appealing to youth. All advertising, including digital advertising, must include required warnings prescribed by regulation.

Hemp Regulations.

Washington State enacted SB 5276 to regulate commercial hemp production and processing in Washington State. Hemp production and processing in Washington State will be regulated by the Washington State Department of Agriculture (“**WSDA**”), rather than the WSLCB. SB 5276 authorizes the WSDA to develop a new “Hemp Plan” to replace the current Industrial Hemp Research Pilot Program, hinging upon approval of the new Hemp Plan by USDA and its adoption by WSDA using an expedited rule-making process. The Washington State Hemp Plan, and the subsequent rules for its implementation, pending WSDA approval, are currently being developed.

RISK FACTORS

Investing in the Company involves significant risks. An investor should carefully consider the risks described below. The risks and uncertainties described below are those that the Company currently believes to be material, but they are not the only ones that the Company faces. If any of the following risks, or any other risks and uncertainties that the Company has not yet identified or that the Company currently consider not to be material, actually occur or become material risks, the Company’s business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected. In that event, the market price of the Company could decline and an investor could lose part or all of such investor’s investment.

Risks Related to the Company

Forward-looking information.

The forward-looking information included in this AIF relating to, among other things, the Company’s future results, performance, achievements, prospects, targets, plans, objectives, goals, milestones, intentions or opportunities or the markets in which we operate is based on opinions, assumptions and estimates made by the Company’s management in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct. The Company’s actual results in the future may vary significantly from the historical and estimated results and those variations may be material. We make no representation that its actual results in the future will be the same, in whole or in part, as those included in this AIF.

Minimal operating history.

As the Company has minimal operating history, it is extremely difficult to make accurate predictions and forecasts of its finances. This is compounded by the fact the Company operates in the cannabis industry, which is rapidly transforming. There is no guarantee that the Company's operations will be profitable.

Going concern risk.

The financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the identification and successful completion of equity or debt or other financing and the achievement of profitable operations with respect to provide consulting services, real property, intellectual property and equipment for lease and enhanced ancillary services to the License Holder. There can be no assurances that the Company will be successful in achieving profitability.

The financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

Negative cash flow for the period ended December 31, 2021.

The Company had negative operating cash flow for the period ended December 31, 2021. To the extent that the Company has negative operating cash flow in future periods, it may need to allocate a substantial portion of its cash reserves to fund such negative cash flow. The Company may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that the Company will be able to generate a positive cash flow from its operations, that additional capital or other types of financing will be available when needed or that these financings will be on terms favorable to the Company. The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions there from, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

Reliance on single stream of income.

The Company directly owns 100% of the shares of New Leaf USA and is reliant on the business of New Leaf USA. New Leaf USA is a Washington holding company, holding 100% interests in subsidiary entities (the Subsidiaries) engaging in business ancillary to cannabis and holding equipment, a real estate lease and intellectual property. These businesses have material contracts with the Washington-State cannabis License Holder. The License Holder holds a "marijuana producer" license and "marijuana processor" license both issued by the WSLCB. The New Leaf USA Entities' activities and resources have been focused on Washington. The Company is in a business relationship with the License Holder for the foreseeable future. Adverse changes or developments affecting the License Holder, or marijuana businesses generally, could have a material and adverse effect on the Company's business, financial

condition and prospects. If the License Holder was to discontinue or fundamentally change their business, the Company's business may fail and shareholders may lose their investment.

Nature of the business model.

The primary business of the Company (through the New Leaf USA Entities) is intended to be engaging in business ancillary to cannabis and holding equipment, real estate leasing and intellectual property through material contracts with the License Holder. Because the production and sale of recreational cannabis remains illegal under federal law, it is possible that the License Holder and/or the Company, should the Company be deemed to be engaged in marijuana related activity, will be forced to cease operations. The U.S. federal government, through both the Drug Enforcement Agency ("DEA") and Internal Revenue Service ("IRS"), has the right to actively investigate, audit and shut-down marijuana growing facilities, processors and retailers. The U.S. federal government may also attempt to seize the Company's property. Any action taken by the DEA and/or the IRS to interfere with, seize, or shut down the Company's or License Holder's operations will have an adverse effect on the Company's business, operating results and financial condition.

This AIF involves an entity that is expected to continue to derive 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. Currently, the Company is indirectly engaged in the manufacture and possession of cannabis in the medical and recreational cannabis marketplace in the United States. The enforcement of relevant laws is a significant risk.

Possible licenses jeopardy.

Any problems associated with the business of the License Holder will have an adverse effect on the Company's business, operating results and financial condition. Washington State has a very rigid regulatory framework. Problems associated with the License Holder may include loss of WSLCB licenses to do business, delays and other problems in production, regulatory interference, including inspections and penalties for violations of the Washington Administrative Code, which may include loss of the license. The License Holder may have undertaken activities that were non-compliant and therefore there is no certainty that the License Holder will continue to hold the license for any amount of time. The WSLCB licenses to produce and process recreational and/or medical marijuana are subject to annual renewal. Renewal of the licenses is not guaranteed. Any of the above may affect the revenues and operations of the business; or cause additional unforeseen circumstances.

Possible asset seizure.

The cultivation, processing, packaging and other related equipment assigned from the License Holder to EquipmentCo is subject to encumbrances in the form of liens and other charges filed in respect of unpaid taxes of the License Holder. To address this, the License Holder has agreed that any amounts payable under the promissory notes issued by EquipmentCo to the License Holder in connection with the equipment transfer will be first applied to satisfy and discharge all such encumbrances. However, unless and until such encumbrances are satisfied and discharged in full, there is risk that such equipment could be subject to seizure or forfeiture. Any loss of such equipment could have an adverse effect on the Company's business, operating results and financial condition.

In addition, the License Holder's assets are also subject to the same liens and charges in respect of unpaid taxes of the License Holder. Unless and until such encumbrances are satisfied and discharged in full, there is risk that the License Holder's assets could be subject to seizure or forfeiture. Any loss of such assets could have an adverse effect on the License Holder, and therefore, have an adverse effect on the Company's business, operating results and financial condition.

Probable lack of business diversification.

Because the Company is focused on developing its business ancillary to the cannabis industry, the hemp business, and potentially directly in the cannabis industry, the prospects for the Company's success are dependent upon the future performance and market acceptance of the Company's intended facilities, products, processes, and services. Unlike certain entities that have the resources to develop and explore numerous product lines, operating in multiple industries or multiple areas of a single industry, the Company does not anticipate the ability to immediately diversify or benefit from the possible spreading of risks or offsetting of losses. Again, the prospects for the Company's success may become dependent upon the development or market acceptance of a very limited number of facilities, products, processes or services.

Competition.

Many other businesses in the Washington State engage in similar activities to the Company, leasing commercial space to "marijuana producers" and "marijuana processors", and providing additional products and services to similar customers.

An increase in the companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may have better capitalization, a longer operating history, more expertise and able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition.

Ongoing costs for infrastructure, growth, regulatory compliance and operations.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure 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 the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons, 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 Common Shares may significantly decrease.

Inadequate protection of proprietary and intellectual property rights, particularly in the U.S.

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company relies on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- the market for the Company's products and services may depend to a significant extent upon the goodwill associated with its trademarks and trade names, and its ability to obtain federal registration certain of its intellectual property law is impaired by the illegality of cannabis under U.S. federal law;
- patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products;

- the Company's applications for trademarks and copyrights relating to its business may not be granted and, if granted, may be challenged or invalidated;
- issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages;
- the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;
- the Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with, or superior to those the Company develops;
- another party may assert a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products; or
- the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence and/or outcome of any such litigation could harm the Company's business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions or under federal law, the Company may face additional difficulties in defending its intellectual property rights.

Litigation and lawsuits.

The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability, environmental liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

Key personnel.

The Company's success depends upon its ability to attract and retain key management, including the Company's CEO, CFO, and technical experts. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company's ability to develop and market its cannabis-related products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all.

Failure to successfully integrate acquired businesses and other assets.

The consummation and integration of the New Leaf USA Entities, as well as any other acquired business or other assets into the Company may be complex and time consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

The Company has an option to purchase the business of the License Holder, subject to WSLCB approval, should the laws of Washington State change to allow non-resident owners of such license; however, the procurement of such license generally will be subject to governmental and regulatory approval. There are no guarantees that the transfer of the ownership and control of the licensed business will ever be approved by the WSLCB.

Lack of market comparables.

Because the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results.

Rapid growth and consolidation of the cannabis industry.

The cannabis industry and businesses ancillary to and directly involved with cannabis businesses are undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability. The Company continues to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company.

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no preemptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company in connection with Awards granted under the Equity Incentive Plan and upon the exercise of outstanding warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed

wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

Insurance coverage.

The Company believes the New Leaf USA Entities currently have insurance coverage with respect to workers' compensation, general liability, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the New Leaf USA Entities are engaged in and operates within the cannabis industry, there are exclusions and additional difficulties and complexities associated with such insurance coverage that could cause the Company and the New Leaf USA Entities to suffer uninsured losses, which could adversely affect the Company's business, results of operations, and profitability. There is no assurance that the Company or the New Leaf USA Entities will be able to fully utilize such insurance coverage, if necessary.

High bonding and insurance costs.

Although it will vary from state to state in the U.S., there is risk that some or all of the state regulatory agencies will begin requiring entities and individuals engaged in certain aspects of the business or industry of legal cannabis to post a bond when applying for a dispensary license or renewal as a guarantee of payment of sales and franchise tax. However, this risk may not be relevant to all aspects of the business or industry of legal cannabis. Given that this industry is relatively new, the Company does not have definitive information or enough information to date to completely quantify what such a figure could or would be. It remains an unknown cost that could have a negative impact on the ultimate success of the Company and/or the Company's participation in the business opportunities ultimately selected.

Reliance on third party suppliers and contractors.

The Company maintains a full supply chain for the provision of services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and the United States, the Company's third-party suppliers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of its suppliers, service providers or contractors would have a material adverse effect on the Company's business and operational results.

Inability to renew material leases.

The Company may be unable to renew or maintain its leases on commercially acceptable terms or at all. An inability to renew its leases, or a renewal of its leases with a rental rate higher than the prevailing rate under the applicable lease prior to expiration, may have an adverse impact on the Company's operations, including disruption of its operations or an increase in its cost of operations. In addition, in the event of non-renewal of any of the Company's leases, the Company may be unable to locate suitable replacement properties for its facilities or it may experience delays in relocation that could lead to a disruption in its operations. Any disruption in the Company's operations could have an adverse effect on its financial condition and results of operations.

Fraudulent or illegal activity by employees, contractors and consultants.

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 violate government regulations. 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 the Company's 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.

Reliance on information technology systems and risk of cyberattacks.

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well it and its contractors and consultants 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 has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. 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.

Director and officer conflicts of interest.

The Company may be subject to various potential conflicts of interest because some of its officers and directors (and consequently, some of the officers and directors of the New Leaf USA Entities) may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time-to-time deal with persons, firms, institutions or companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, if such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Damage to the Company's reputation.

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

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. The Company may, in the future, establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, there can be no assurance that it will effectively mitigate currency risks.

Constraints on marketing products.

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the United States limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

Security Risks

The business premises of the Company are a target for theft. While the Company has implemented security measures and continues to monitor and improve its security measures, its cultivation, processing and dispensary facilities could be subject to break-ins, robberies and other breaches in security. If there was a breach in security and the Company fell victim to a robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers, cultivation and processing equipment, or cash could have a material adverse impact on the business, financial condition, results of operation and property of the Company.

As the Company's business involves the movement and transfer of cash which is collected from third parties or deposited into its bank, there is a risk of theft or robbery during the transport of cash. The Company engages security firms to provide armed guards and security in the transport and movement of large amounts of cash. As the cannabis industry in Washington State grows and cannabis businesses remain unable to access financial institutions, the risk of theft and robbery is expected to remain elevated. While the Company has taken robust steps to prevent theft or robbery of cash during transport, there can be no assurance that there will not be a security breach during the transport and the movement of cash involving the theft of product or cash.

Asset Location and Legal Proceedings

Substantially all of the Company's assets are located outside of Canada, and certain of its directors are resident outside of Canada, and their assets are outside of Canada. Serving process on those directors may prove to be difficult or excessively time consuming. Additionally, it may be difficult to enforce a judgment obtained in Canada against the Company, its subsidiaries and any directors and officers residing outside of Canada.

Vulnerability to Rising Energy Costs

Cannabis growing operations consume considerable energy, making the Company potentially vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business, results of operations, financial condition or prospects of the Company.

Risks Inherent in an Agricultural Business

Cannabis is an agricultural product. There are risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the products are usually grown indoors under climate-controlled conditions, with conditions monitored, there can be no assurance that natural elements will not have a material adverse effect on the production of the Company's products.

Results of Future Clinical Research

Research in Canada and the U.S. and internationally as it pertains to the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Company believes that articles, reports and studies support its beliefs regarding the viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective investors should not place undue reliance on such articles and reports. Although the Company does not make any product claims regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, some of the products the Company will distribute from other manufacturers may have labels affixed with some or all of these claims. Future research studies and clinical trials may draw opposing conclusions to those stated herein or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Competition from Synthetic Production and Technological Advances

The pharmaceutical industry has begun to enter the cannabis industry, including, through the development and distribution of synthetic products which emulate the effects and treatment of organic cannabis. If they are successful, the widespread popularity of such synthetic products could substantially change the demand, volume and profitability of the cannabis industry. This could adversely affect the ability of the Company to secure long-term profitability and success through the sustainable and profitable operation of its business.

Indemnification

The Company's governing documents provide that the Company will, to the fullest extent permitted by law, indemnify directors and officers for certain liabilities incurred by them by virtue of having been a director or officer of the Company.

The Company may also have contractual indemnification obligations under any future employment agreements with its officers or agreements entered into with its directors. The foregoing indemnification obligations could result in it incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which the Company may be unable to recoup. These provisions and the resulting costs may also discourage it from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by its shareholders against its directors and officers even though such actions

Risk Factors Specifically Related to the United States Regulatory System

New and highly regulated industry.

The Company incurs 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 and, therefore, on the Company's prospective returns. Further, the Company may be subject to a variety of claims and lawsuits. Adverse outcomes in some or all of these claims may result in significant monetary damages or injunctive relief that could adversely affect our ability to conduct our business. The litigation and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

The industry is subject to extensive controls and regulations, which may significantly affect the financial condition of market participants. Changes in government levies, including taxes, could reduce the Company's earnings and could make future capital investments or the Company's operations uneconomic. The industry is also subject to numerous legal challenges, which may significantly affect the financial condition of market participants and which cannot be reliably predicted.

Risks in selling products to be ingested or consumed otherwise.

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis and cannabis products based on the Company's recipes and brands involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's products.

If legalized or decriminalized the FDA could introduce further regulations.

Should the Federal government legalize marijuana for medical or recreational use nation-wide, it is possible that the U.S. Food and Drug Administration ("FDA") would seek to regulate the products under

the Food, Drug and Cosmetics Act of 1938. The FDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting, processing, and advertising of cannabis and cannabis products. Clinical trials may be needed to verify efficacy and safety of cannabis. It is also possible that the FDA would require that facilities where cannabis is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event any of these regulations are imposed, the Company cannot foresee the impact on its operations and economics. If the Company is unable to comply with the regulations and or registration as prescribed by the FDA or another federal agency such as the ATF, the Company may be unable to continue to operate in its current form or at all.

Product Recall Risks

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company and sold by it or by licensed producers are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of revenue due to a loss of and may not be able to replace that revenue at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has established procedures to test finished products (in connection with Washington state requirements), there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the regulatory agencies, requiring further management attention and potential legal fees and other expenses.

The Company's operations can also be substantially affected by adverse publicity resulting from quality, illness, injury, health concerns, public opinion, or operating issues. The Company will attempt to manage these factors, but the occurrence of any one or more of these factors could materially and adversely affect the Company's business, financial condition and results of operations.

Illegality of activities under United States federal and state law.

While the Company's business is ancillary to cannabis and its activities are expected to be compliant with applicable state and local law, cannabis activities remain illegal under United States federal law and the business activities of the Company is involved in are with businesses engaged in the cannabis industry in the U.S. where local and state laws permit such activities or provide limited defenses to criminal prosecutions.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of medical marijuana under the *Cannabis Act* (Canada), investors are cautioned that in the United States, marijuana remains illegal at the federal level and is regulated at the state level. Although certain states and territories of the U.S. authorize medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law (CSA), the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law. If the Company's business activities in the United State were determined to be cannabis activities, an investor's contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.

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, its holding (directly or indirectly) of marijuana licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares.

In addition, it is difficult 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.

In addition, since the possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law, the Company may be deemed to be aiding and abetting illegal activities through the contracts it has entered into and the products that it provides. The Company leases real estate, provide material supply agreement, and provide intellectual property to the licensed “marijuana producer” and “marijuana processor” License Holder in Washington State. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, could potentially seek to bring an action or actions against the Company, including, but not limited to, aiding and abetting another’s criminal activities. The Federal aiding and abetting statute provides that anyone who “commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal.” As a result of such an action, the Company may be forced to cease operations and its investors could lose their entire investment and could face federal civil and/or criminal prosecution. Such an action would have a material negative effect on our business and operations.

In addition, although the state in which the Company operates has legalized regulated commercial recreational and medical marijuana activities, all other marijuana activities remain illegal under state law. Consequently, any marijuana activity that falls outside the statutorily permitted recreational and/or medical marijuana activity could result in local and state law enforcement actions. Any criminal law enforcement under state or local law would have a material adverse effect on the Company’s business and operations.

Enforcement of relevant laws.

Thirty-seven of the states in the U.S., as well as the District of Columbia, Puerto Rico, the Northern Mariana Islands, the U.S. Virgin Islands, and Guam, have enacted comprehensive legislation to regulate the sale and use of medical and/or recreational cannabis. Notwithstanding the permissive regulatory environment of medical and/or recreational cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the Controlled Substances Act. As such, cannabis-related practices or activities, including without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company or its investors of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company or any investor. Any such proceedings brought against the Company or its investors may adversely affect the Company’s operations and financial performance.

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

For the reasons set forth above, the Company's interests in the U.S. 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 refuse to settle trades for cannabis issuers that have cannabis-related operations and/or 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, the TMX Group announced the signing of a the 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 Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. The Company's activities and operations in the U.S. are subject to evolving regulation by state and federal governmental authorities.

The Company's operations are exclusively focused in Washington, a state that has legalized the recreational use of cannabis. Currently, the states of Alaska, Arizona, California, Colorado, Connecticut, Illinois, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New Mexico, New York, Oregon, Vermont, Virginia, Washington, and the District of Columbia have all legalized recreational use of cannabis. A super-majority of all the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis. However, the U.S. federal government has not enacted similar legislation. As such, the cultivation, manufacture, distribution, sale and use of cannabis remains illegal under U.S. federal law.

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 advised prosecutorial forbearance by U.S. Attorneys for marijuana activities that 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 Memorandum 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. In his 2021 confirmation hearings and published statements, Attorney General Merrick Garland repeatedly affirmed his intention for the DOJ to respect the framework of state-legalization regimes: "I do not think it the best use of the Department's limited resources to pursue prosecutions of those who are complying with the laws in states that have legalized and are effectively regulating marijuana. However, 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 operations along with any future investments in such businesses would be materially and adversely affected. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its potential investments.

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 51-352 setting out its disclosure expectations for specific risks facing issuers with cannabis-related activities in the U.S. Staff Notice 51352 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 future investment and opportunities in the U.S.

The concepts of "medical cannabis" and "retail cannabis" do not exist under U.S. federal law because the U.S. Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., 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 U.S. federal law. Although the Company's activities are compliant with applicable U.S. state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. 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 U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the U.S., 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.

Were the Company's business activities deemed to be cannabis business activity, and not ancillary to the cannabis industry, many factors could cause the Company's actual results, performances and achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including without limitation, the following factors:

- The Company operates in the cannabis sector in the U.S., where cannabis is federally illegal;
- The activities of the Company are subject to evolving regulation that is subject to changes by governmental authorities in Canada and the U.S.;
- 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;
- Under Section 280E of the Internal Revenue Code, normal business expenses incurred in the business of selling marijuana and its derivatives are not deductible in calculating income tax liability. Therefore, the Company will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. As a result, an otherwise profitable business may in fact operate at a loss after taking into account its income tax expenses. There is no certainty that the Company will not be subject to 280E in the future, and accordingly, there is no certainty that the impact that 280E has on the Company's margins will ever be reduced;
- 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 the 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.

Heightened scrutiny of investments and operations in the United States.

For the reasons set forth above, the Company's investments and operations in the United States, and any future investments or 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 or retain assets or operations in the United States or any other jurisdiction.

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 Common Shares to make and settle trades. In particular, the Common Shares would become highly illiquid as until an alternative was implemented, investors would have no ability to affect a trade of the Common Shares through the facilities of any stock exchange.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in the U.S. or elsewhere. A negative shift in the public's perception of cannabis in the U.S. 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 cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand, should it decide to do so. The Company's inability to expand its operations into other jurisdictions 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 *Cannabis Act* (Canada), investors are cautioned that in the U.S., cannabis is largely regulated at the state level. Notwithstanding the permissive regulatory environment of medical and recreational cannabis at the state level in certain states, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act in the U.S. and as such, may be in violation of federal law in the U.S.

As previously stated, although the Cole Memorandum has been rescinded, legislative and discretionary safeguards for the medical cannabis industry remains in place, including the Rohrabacher Blumenauer

Amendment (originally the Rohrabacher Farr Amendment) that has been included in federal annual spending bills since 2014. This amendment restricts the Department of Justice from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. For instance, the Rohrabacher Blumenauer Amendment (originally the Rohrabacher Farr Amendment) has been included in federal annual spending bills since 2014. This amendment restricts the Department of Justice from using federal funds to prevent states with medical cannabis regulations from implementing laws that authorize the use, distribution, possession or cultivation of medical cannabis. The Rohrabacher Blumenauer Amendment was renewed by the U.S. Congress as part of the FY2021 omnibus spending bill and is presently effective through at least September 2022.

American courts have construed the Rohrabacher Blumenauer Amendment 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 Controlled Substances Act, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. 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.

Additionally, in his 2021 confirmation hearings and published statements, Attorney General Merrick Garland repeatedly affirmed his intention for the DOJ to respect the framework of state-legalization regimes: “I do not think it the best use of the Department’s limited resources to pursue prosecutions of those who are complying with the laws in states that have legalized and are effectively regulating marijuana.”

As previously stated, violations of any federal laws and regulations could, in addition to criminal prosecution, result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the U.S., 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.

Enforcement of cannabis laws may be subject to change.

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 or recreational 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 and/or recreational cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company’s business strategy may have a material adverse effect on the Company’s business, financial condition and results of operations.

Denial of management, employees and/or investors entry into the U.S.

Because cannabis remains illegal under U.S. federal law, those employed at or investing in legal and licensed Canadian cannabis companies could face detention, denial of entry or lifetime bans from the U.S. for their business associations with U.S. cannabis businesses. Entry happens at the sole discretion of the U.S. Customs and Border Protection officers on duty, and these officers have wide latitude to ask

questions to determine the admissibility of a foreign national. The government of Canada has started warning travelers on its website that previous use of cannabis, or any substance prohibited by U.S. federal laws, could mean denial of entry to the U.S. Business or financial involvement in the legal cannabis industry in Canada or in the United States could also be reason enough for U.S. border guards to deny entry. On September 21, 2018, U.S. Customs and Border Protection (USCBP) released a statement outlining its current position with respect to enforcement of the laws of the United States. On October 9, 2018, U.S. Customs and Border Protection provided an update to such statement. It stated that Canada's legalization of cannabis will not change U.S. Customs and Border Protection enforcement of United States laws regarding controlled substances and because cannabis continues to be a controlled substance under United States law, working in or facilitating the proliferation of the legal marijuana industry in U.S. states where it is deemed legal or Canada may affect admissibility to the U.S. As a result, USCBP has affirmed that, employees, directors, officers, managers and investors of companies involved in business activities related to cannabis in the U.S. or Canada (such as the Company), who are not U.S. citizens face the risk of being barred from entry into the United States for life: "A Canadian citizen working in or facilitating the proliferation of the legal marijuana industry in Canada, coming to the U.S. for reasons unrelated to the marijuana industry will generally be admissible to the U.S. However, if a traveler is found to be coming to the U.S. for reason related to the marijuana industry, they may be deemed inadmissible." The Company's business and investments are located in the United States and while the majority of the Company's directors, officers and employees are currently resident and located in the United States, if any of the Company's directors, officers and employees are determined to be inadmissible to enter the United States, this could have a negative impact on the Company's ability to operate in the United States. In addition, the perception that involvement in the cannabis industry could lead to inadmissibility to the United States could make it more difficult for the Company to engage qualified directors, officers and employees in the future.

Regulatory scrutiny may negatively impact ability to raise capital.

The Company's business activities rely on relatively new and still developing laws and regulations in Washington State. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug Administration, Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Advisory or other federal, Washington State or other applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the Company's industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its ability to raise additional capital, which could reduce, delay or eliminate any return on investment in the Company.

Difficulty accessing service of banks and processing credit card payments.

In February 2014, the FinCEN bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the DOJ, FinCEN or other federal regulators. Thus, most banks and other financial institutions do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance.

In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or restricted access to banking or other financial services in the United States. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned. The Company will pursue alternatives that ensure its

operations will be compliant with the FinCEN guidance and existing disclosures around cash management and reporting to the IRS once it moves from development into production.

The SAFE Banking Act (H.R. 1996; full title Secure and Fair Enforcement (SAFE) Act) would ensure that financial institutions, including banks and credit unions, are afforded safe harbor against federal forfeiture actions and liabilities for providing financial services to a marijuana-related business. The SAFE Act offers protections by prohibiting federal banking regulators from: (a) terminating or limiting deposit insurance solely for providing financial services to a cannabis-related legitimate business or ancillary service provider; (b) prohibiting, penalizing, or discouraging a bank from providing financial services to a cannabis-related legitimate business or ancillary service provider; (c) recommending, incentivizing, or encouraging a bank not to offer, downgrade or cancel financial services solely because cannabis-related legitimate business; or (d) taking adverse action on a loan made to a cannabis-related legitimate business or its employee, owner, or operator or an owner or operator of real estate or equipment that is leased to a cannabis-related legitimate business. The SAFE Banking Act was first introduced in 2019; it was recently reintroduced in 2021 by a bipartisan group of over 100 members of the House. On March 18, 2021, the SAFE Act was reintroduced in the House of Representatives. On March 23, 2021, the bill was reintroduced in the Senate as well. On April 19, 2021 the House passed the SAFE Act by a vote of 321-101. In an attempt to help get the SAFE Act passed in the Senate, Representative Ed Perlmutter proposed that it be included as an amendment to the NDAA. The SAFE Act was added to the NDAA by a voice vote on September 21, 2021, and the NDAA passed the House in a 316-113 vote on September 23, 2021. Despite its continued success in the House, the SAFE Act was removed from the version of the NDAA passed by the Senate on December 7, 2021.

Unavailability of U.S. federal trademark and patent protection.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

Unavailability of U.S. bankruptcy protection.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal bankruptcy protection, may not be available to the Company. Federal bankruptcy courts have held a party may not seek bankruptcy relief while violating or continuing to violate U.S. federal law. This prohibition can extend to businesses providing ancillary services to business in the marijuana industry.

The Company's contracts may not be legally enforceable in the United States.

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 such contracts in U.S. federal and certain state courts.

Risk of banks and other financial institutions violating certain financial laws.

Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act. These statutes can impose criminal liability for

engaging in certain financial and monetary transactions with the proceeds of a “specified unlawful activity” such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA. The Company may also be exposed to the foregoing risks.

In the event that any of the Company’s investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize 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 in the foreseeable future, in the event that a determination was made that any such investments in the United States could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Risks Related to the Regulatory Environment

Uncertainty regarding legal and regulatory status and changes.

Achievement of the Company’s business objectives and plans is also contingent, in part, upon compliance with other regulatory requirements enacted by governmental authorities and obtaining other required regulatory approvals. The regulatory regime applicable to the cannabis business in Canada and the US is currently undergoing significant proposed changes and the Company cannot predict the impact of the regime on its business once the structure of the regime is finalized. Similarly, the Company cannot predict the timeline required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failing to obtain, required regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company’s operations. In addition, 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.

Risk of regulatory or political change.

The implementation of the Company’s business plan is subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis and also laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Similarly, in Canada, provincial laws and regulation may change in a way that is unfavorable to the Company’s business. Local and city ordinances may decide to strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the US federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company’s investments in such businesses would be materially and adversely affected notwithstanding the fact that the Company is not directly engaged in the sale or distribution of cannabis. Federal actions against any individual or entity engaged in the cannabis industry or a substantial repeal of cannabis related legislation could adversely affect the Company, its business and its investments.

The success of the business strategy of the Company depends on the legality of the cannabis industry. The political environment surrounding the cannabis industry in general can be volatile and the regulatory framework remains in flux. The medical and recreational cannabis industry is subject to significant regulatory change at both the state and federal level. If the Company and the New Leaf USA Entities are unable to respond appropriately to changing federal and state regulations, it may not be successful in capturing significant market share. The inability of the Company to respond to the changing regulatory landscape could harm its business. Although many states have implemented legislation to legalize and regulate the cultivation, sale, possession and use of cannabis, and additional states have pending legislation regarding the same, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Company's ability to successfully invest and/or participate in the selected business opportunities.

Further, delays in enactment of new state or federal regulations could restrict the ability of the Company to reach strategic growth targets and lower return on investor capital. The strategic growth strategy of the Company may be impacted by certain federal and state regulations being enacted to facilitate the legalization of medical and recreational cannabis. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Company, and thus, the effect on the return of investor capital, could be negatively impacted. The Company is unable to predict with certainty when and how the outcome of these complex, legal, regulatory, and legislative proceedings will affect its business and growth.

Furthermore, there may be unknown additional regulatory fees and taxes that may be assessed in the future. The Company is aware that multiple states are considering special taxes or fees on businesses in the cannabis industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could change the net income and return on the Company's investments and/or participation in the selected business opportunities.

Anti-money laundering laws and regulations.

The Company is subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the 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, the *Criminal Code (Canada)* and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada. In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

Regulatory or agency proceedings, investigations and audits.

The Company's business, and the business of the License Holder, requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject us or the License Holder to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company or the License Holder may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm our reputation or the reputations of the brands that we sell, require us to take, or refrain from taking, actions that could harm our operations or require us to pay substantial amounts of money, harming our financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in

substantial costs or a diversion of management's attention and resources or have a material adverse impact on our business, financial condition and results of operations.

Environmental, health and safety laws.

The Company is subject to environmental, health and safety laws and regulations in each jurisdiction in which the Company operates in. Such regulations govern, among other things, emissions of pollutants into the air, wastewater discharges, waste disposal, the investigation and remediation of soil and groundwater contamination, and the health and safety of the Company's employees. The Company may be required to obtain environmental permits from governmental authorities for certain of its current or proposed operations. If the Company should violate or fail to comply with these regulations or permits, the Company could be fined or otherwise sanctioned by regulators.

As with other companies engaged in similar activities or that own or operate real property, the Company faces inherent risks of environmental liability at its current and historical production sites. Certain environmental laws impose strict and, in certain circumstances, joint and several liability or current or previous owners or operations of real property for the cost of the investigation, removal or remediation of hazardous substances as well as liability for related damages to natural resources. In addition, the Company may discover new facts or conditions that may change its expectations or be faced with changes in environmental laws or their enforcement that would increase its liabilities. Furthermore, its costs of complying with current and future environmental and health and safety laws, or the Company's liabilities arising from past or future releases of, or exposure to, regulated materials, may have a material adverse effect on its business, financial condition and results of operations.

DIVIDENDS AND DISTRIBUTIONS

The Company has not declared dividends on any of its shares in the past and does not intend to pay any in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Board of Directors and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of dividends and any other factors that the Board of Directors deems relevant.

DESCRIPTION OF CAPITAL STRUCTURE

The Company's authorized capital stock consists of an unlimited number of Common Shares and an unlimited number of class B non-voting preferred shares in the capital of the Company (the "**Preferred Shares**"). As of the date of this AIF, there are 59,426,584 Common Shares and nil Preferred Shares issued and outstanding.

Common Shares

Holders of the Common Shares are entitled to one vote per share at all meetings of the shareholders of the Company either in person or by proxy. The holders of Common Shares are also entitled to dividends, if and when declared by the directors of the Company and the distribution of the residual assets of the Company in the event of a liquidation, dissolution or winding up of the Company. The voting, dividend and liquidation rights of the holders of Common Shares are subject to, and qualified by, the rights, privileges, restrictions and conditions attaching to the Preferred Shares.

The Common Shares rank equally as to all benefits which might accrue to the holders thereof, including the right to receive dividends, voting powers, and participation in assets and in all other respects, on liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other disposition of the assets of the Company among its shareholders for the purpose of winding up its affairs after the Company has paid out its liabilities. The Common Shares are not subject to call or assessment rights or any pre-emptive or conversion rights. There are no provisions for redemption, purchase for cancellation, surrender or purchase of funds.

Preferred Shares

The holders of Preferred Shares are not entitled to receive notice of, attend or vote at any general meetings of shareholders of the Company and do not have any voting rights except to receive notice of, attend and vote at class meetings of the holders of the Preferred Shares. The holders of Preferred Shares are entitled to dividends, if, as and when declared, however, no dividends shall be declared and paid on or set apart for payment on the Common Shares unless the dividends on all the Preferred Shares have been declared and paid or set apart for payment; the Board of Directors may declare and authorize the payment of such dividends exclusively on the Preferred Shares. In the event of liquidation, the holders of the Preferred Shares take priority with regards to the return of capital and distribution of assets, where such holders receive an amount equal to the amounts paid up on the Preferred Shares together with all declared and unpaid dividends thereon, if any. New Leaf may, by notice of redemption, at any time and at the sole discretion of the Board of Direction, redeem all or any Preferred Shares. A holder of Preferred Shares may at any time demand that New Leaf redeem all or any part of the Preferred Shares held by such holder.

Warrants

The Supplement Warrants comprising part of the Supplement Units issued in connection with the Supplement Offering were issued pursuant to a warrant indenture dated November 1, 2021, between the Company and Odyssey Trust Corporation, governing the issuance and terms of the Warrants (the "**Warrant Indenture**"). The following summary of certain provisions of the Warrant Indenture does not purport to be complete and is subject in its entirety to the detailed provisions of the Warrant Indenture, a copy of which has been filed on SEDAR and are available without charge from the Company. A register of Supplement Warrant holders is maintained at the principal offices of Odyssey Trust Corporation in Vancouver, British Columbia.

Each Supplement Warrant entitles the holder thereof to acquire, subject to adjustment in certain circumstances, one Common Share (each, a "**Supplement Warrant Share**") at an exercise price of \$0.40 until November 1, 2023 (the "**Expiry Date**"), subject to the Company providing an acceleration notice (in accordance with the terms of the Warrant Indenture) to holders of the Supplement Warrants notifying the holders of the Company's exercise of the right to accelerate the Expiry Date. If the Company provides such notice, then the Expiry Date will be accelerated to 30 calendar days following the date of such notice (the "**Early Expiry Date**").

The Warrant Indenture provides for adjustment in the number of Supplement Warrant Shares issuable upon the exercise of the Supplement Warrants and/or the exercise price per Supplement Warrant Share upon the occurrence of certain events, including: (i) the issuance of Common Shares or securities exchangeable for, or convertible into, Common Shares to all or substantially all of the holders of Common Shares by way of distribution or stock dividend (other than a distribution of Common Shares upon the exercise of warrants or stock options); (ii) the subdivision, redivision or change of the outstanding Common Shares into a greater number of Common Shares; (iii) the reduction, combination or consolidation of the outstanding Common Shares into a smaller number of Common Shares; (iv) the fixing of a record date for the distribution to all or substantially all of the holders of the outstanding Common Shares of rights, options or warrants under which such holders are entitled, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the current market price, for the Common Shares on such record date; and (v) the fixing of a record date for the issuance or distribution to all or substantially all of the holders of the outstanding Common Shares of (a) securities of any class, whether of the Company or any other person (other than Common Shares), (b) rights, options or warrants to subscribe for or purchase Common Shares (or other securities convertible into or exchangeable for Common Shares), other than pursuant to a rights offering; (c) evidences of its indebtedness, or (d) any property or other assets.

The Warrant Indenture provides for adjustments in the class and/or number of securities issuable upon exercise of the Supplement Warrants and/or exercise price per security in the event of the following additional events: (i) reclassifications of the Common Shares or a capital reorganization other than as described above; or (ii) consolidations, amalgamations, plan of arrangements, mergers or other business combination of the Company with or into another entity (other than a consolidation, amalgamation, plan of arrangement or merger which does not result in any reclassification of the outstanding Common Shares or a change of the Common Shares into other shares).

The Company covenanted in the Warrant Indenture that, during the period in which the Supplement Warrants are exercisable, it will give notice to holders of Supplement Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Supplement Warrants or the number of Supplement Warrant Shares issuable upon exercise of the Supplement Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such event.

No fractional Supplement Warrant Shares will be issuable upon the exercise of any Supplement Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Supplement Warrants do not have any voting or pre-emptive rights or any other rights that a holder of Common Shares would have.

From time to time, the Company and Odyssey Trust Corporation, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Supplement Warrants may only be made by “extraordinary resolution”, which is defined in the Warrant Indenture as a resolution either: (i) passed at a meeting of the holders of Supplement Warrants at which there are holders of Supplement Warrants present in person or represented by proxy representing at least 10% of the aggregate number of the then outstanding Supplement Warrants and passed by the affirmative vote of holders of Supplement Warrants representing not less than $66\frac{2}{3}\%$ of the aggregate number of all the then outstanding Supplement Warrants represented at the meeting and voted on the poll upon such resolution; or (ii) adopted by an instrument in writing signed by the holders of Warrants representing not less than $66\frac{2}{3}\%$ of the aggregate number of all the then outstanding Supplement Warrants.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares were listed on the CSE on May 1, 2020 under the symbol “NLV”. On July 23, 2020, the Company received approval for a OTC Markets listing of the Common Shares under the symbol “NLVVF” and DTC eligibility for the Common Shares. The following tables sets forth trading information for the Common Shares on the CSE for the most recently completed financial year of the Company.

Period	High (\$)	Low (\$)	Volume
January 2021	0.33	0.25	434,259
February 2021	0.78	0.27	8,468,822
March 2021	0.66	0.28	3,782,236
April 2021	0.60	0.44	3,410,201
May 2021	0.52	0.42	1,939,347
June 2021	0.49	0.42	3,151,128
July 2021	0.495	0.42	3,187,191
August 2021	0.47	0.315	1,815,620

Period	High (\$)	Low (\$)	Volume
September 2021	0.355	0.24	1,995,543
October 2021	0.27	0.19	7,482,116
November 2021	0.26	0.185	4,340,055
December 2021	0.20	0.095	2,334,633

PRIOR SALES

The following table summarizes issuances of securities of the Company that are outstanding but not listed or quoted for trading on a marketplace, during the 12-month period prior to the date of this AIF.

Class	Date of Issuance	Number	Issue/Exercise Price
Options	January 15, 2021	875,000 ⁽¹⁾	\$0.28
Warrants	February 18, 2021	1,500 ⁽²⁾	\$0.40
Warrants	February 24, 2021	5,370 ⁽²⁾	\$0.40
Warrants	February 26, 2021	7,500 ⁽²⁾	\$0.40
Warrants	March 1, 2021	52,290 ⁽²⁾	\$0.40
Options	September 23, 2021	500,000 ⁽³⁾	\$0.28
Warrants	November 1, 2021	3,000,000 ⁽⁴⁾	\$0.40
Compensation Options	November 1, 2021	420,000 ⁽⁵⁾	\$0.25

Notes:

- (1) Common share purchase warrants issued on exercise of Agent Warrants issued in connection with the IPO. See *“General Development of the Business – Three Year History”*.
- (2) Options to purchase Common Shares granted to employees of New Leaf USA and a director of the Company.
- (3) Options to purchase Common Shares granted to officers of New Leaf USA.
- (4) Issued in connection with the Supplement Offering.
- (5) The Company issued 420,000 Compensation Options to the agent as compensation in connection with the Supplement Offering.

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

Escrow Agreements

As of the date of this AIF, 7,895,206 Common Shares (the **“Escrow Shares”**) and 2,400,000 Performance Warrants (the **“Escrow Warrants”**), and together with the Escrow Shares, the **“Escrow Securities”**) are held in escrow pursuant to an NP 46-201F1 escrow agreement entered into between the Company, Odyssey Trust Corporation and the holders of the Escrow Securities (the **“Escrow Agreement”**) in connection with the IPO. Pursuant to the Escrow Agreement, the holders of the Escrow Securities agreed to deposit the with Odyssey Trust Corporation until they are released in accordance with terms of the Escrow Agreement.

The Escrow Securities are subject to the release schedule specified in NP 46-201 for emerging issuers and as set out in the form of escrow required by Policy 2 – *Qualifications for Listing of the CSE*. 10%

percent of the Escrow Securities were released on May 1, 2020, the date on which the Company listed on the CSE and an additional 15% will be released every six months thereafter until all Escrow Securities have been released (36 months following the date of listing on the CSE).

The following table sets out the class, number and percentage of class of securities of the Company that are subject to escrow or contractual restrictions on transfer as of the date of this AIF:

Class	Number of securities held in escrow or subject to contractual restrictions on transfer	Percentage of class
Common Shares	7,895,206	13.29%
Performance Warrants	2,400,000	60%

Notes:

- (1) Odyssey Trust Corporation is acting as escrow agent for the Escrowed Securities.

PRINCIPAL SHAREHOLDERS

To the knowledge of the Company's directors and senior officers, as of the date of this AIF, no persons beneficially own, directly or indirectly, or exercise control or direction over, Common Shares carrying more than 10% of the voting rights attached to all outstanding Common Shares, except as follows:

Name	Number of Common Shares	Percentage of Outstanding Common Shares
Boris Gorodnitsky	6,329,338	10.65%
Robert Colwell	6,329,338	10.65%

The information as to Common Shares beneficially owned, directly or indirectly or over which control or direction is exercised, is based upon information furnished to the Company by each of the individuals listed above.

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

The following table sets out the names and province or state of residence of the directors and executive officers of New Leaf, their present position(s) and offices with New Leaf, their principal occupations during the last five years and their respective dates of appointment.

All directors are expected to hold office until the next annual general meeting of shareholders. Directors are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders.

As at the date of this AIF, New Leaf's directors and executive officers beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 13,008,676 Common Shares of New Leaf, representing approximately 21.89% of the issued and outstanding Common Shares. The information as to Common Shares beneficially owned, directly or indirectly or over which control or direction is exercised, is based upon information furnished to the Company by each of the individuals listed below.

Name	Positions Presently Held	Director Since	Principal Occupation for Past Five Years
Mike Stier ⁽¹⁾ <i>British Columbia, Canada</i>	CEO, President and a Director of New Leaf	2022	Former CEO & Current Director of Optimi Health Corp.; Operations Manager, LinkPoint Consulting; Trader, Ledgir House Ltd.;
Terence Lee <i>British Columbia, Canada</i>	CFO of New Leaf		Partner, Imperium Consulting LLP; Manager of FP&A, Mcloud Technologies Corp.; Manager of Financial Analysis, Anandia Laboratories Inc.; Assurance Manager, BDO Canada LLP
Chris Cooper ⁽¹⁾⁽³⁾ <i>British Columbia, Canada</i>	Director of New Leaf	2019	Director, Alpha Lithium Corp; CEO and Director, Canadian Towers & Fiber Optics Inc.
Boris Gorodnitsky ⁽⁴⁾ <i>Washington , USA</i>	Director of New Leaf and President of New Leaf USA	2020	Co-founder, New Leaf Enterprises Inc. and New Leaf USA Inc.
Robert Colwell ⁽⁴⁾ <i>Washington, USA</i>	Director of New Leaf and CEO of New Leaf USA	2020	Founder, Dama LLC; Co-founder, New Leaf Enterprises Inc. and New Leaf USA Inc.
Daryn Gordon ⁽¹⁾ <i>Alberta, Canada</i>	Director of New Leaf	2022	Accountant, Daryn Gordon Professional Corporation; CFO, Alpha Copper Corp.; CFO, Canamera Energy Metals Corp.; CFO, Apollo Silver Corp.; CFO and Director, Emperor Oil Ltd.

Notes:

- (1) Member of the Audit Committee.
- (2) Chair of the Audit Committee.
- (3) Chairman of the board of directors of the Company.
- (4) Pursuant to an ancillary rights agreement with the Vendors, Boris Gorodnitsky and Robert Colwell will be entitled to together select one additional nominee for election to the Board, in each case, in the aggregate to appoint or elect two nominees to the Board at any annual general meeting of shareholders of the Company held during a period of three years from the closing of the Acquisition Transaction.

Cease Trade Orders and Corporate Bankruptcies

Except as set out below, to the Company's knowledge, no existing director, officer or promoter of the Company or a securityholder anticipated to hold a sufficient number of securities of the Company to affect materially the control of the Company, within 10 years of the date of this AIF, has been a director, officer or promoter of any person or company that, while that person was acting in that capacity,

- (a) was the subject of a cease trade or similar order, or an order that denied the other issuer access to any exemptions under applicable securities law, for a period of more than 30 consecutive days; or

- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Cooper is also the President and CEO of Reparo Energy Partners Corp., formerly Northern Sun Exploration Company Inc., a company traded on the TSX Venture Exchange. On December 23, 2008, trading in the common shares of this company was halted for failure to maintain a transfer agent, but trading of common shares on the TSX Venture Exchange resumed on December 23, 2008. The British Columbia Securities Commission issued an order on March 11, 2009 and the Alberta Securities Commission issued an order on March 6, 2009, that Reparo Energy Partners Corp. be cease traded due to failure to file certain financial information and it remains under the cease trade orders as at the date of this AIF. In August 2008, Reparo Energy Partners Corp. filed for protection under the Insolvency Act and as at August 2009, the restructuring proposal had been fully performed.

Mr. Cooper is also the President and CEO of Aroway Energy Inc., a company traded on the TSX Venture Exchange. A cease trade order was issued by the British Columbia Securities Commission on January 4, 2016 against Aroway Energy Inc. for failing to file its annual audited financial statements, interim financial report and related management's discussion and analysis. Aroway Energy Inc. remains under the cease trade order as at the date of this AIF.

Mr. Cooper is also a director of StartMonday Technology Corp., a company traded on the CSE. A cease trade order was issued by the British Columbia Securities Commission on May 1, 2019 against StartMonday Technology Corp. for failing to file its annual audited financial statements, interim financial report and related management's discussion and analysis. StartMonday Technology Corp. remains under the cease trade order as at the date of this AIF.

Penalties or Sanctions

To the Company's knowledge, no existing director, officer or promoter of the Company, or a securityholder anticipated to hold sufficient securities of the Company to affect materially the control of the Company, has:

- (a) been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body that would be likely to be considered important to a reasonable securityholder making a decision in respect of the Company.

Personal Bankruptcies

Except as set out below, to the Company's knowledge, no existing director, officer or promoter of the Company, or a securityholder anticipated to hold sufficient securities of the Company to affect materially the control of the Company, or a personal holding company of such persons has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or promoter.

Mr. Colwell is subject to a judgement rendered on September 4, 2013, resulting from outstanding debt of approximately USD\$3,118.92.

Conflicts of Interest

Members of management of the Company are, and may in future be, associated with other firms involved in a range of business activities. Consequently, there are potential inherent conflicts of interest in their acting as officers and directors of our company. Although the officers and directors are engaged in other business activities, the Company anticipates they will devote an important amount of time to our affairs. The Company's officers and directors are now and may in the future become shareholders, officers or directors of other companies, which may be formed for the purpose of engaging in business activities similar to the Company's. Accordingly, additional direct conflicts of interest may arise in the future with respect to such individuals acting on behalf of us or other entities. Moreover, additional conflicts of interest may arise with respect to opportunities which come to the attention of such individuals in the performance of their duties or otherwise. Currently, the Company does not have a right of first refusal pertaining to opportunities that come to their attention and may relate to our business operations. The Company's directors and officers are subject to fiduciary obligations to act in the best interest of the Company. Conflicts, if any, will be subject to the procedures and remedies of the BCBCA or other applicable corporate legislation.

Audit Committee

Audit Committee Charter

The full text of the charter of the Audit Committee is attached as Schedule "A" to this AIF.

Composition of the Audit Committee

Pursuant to applicable laws, the Company is required to have an audit committee comprised of at least three directors, the majority of whom must not be officers or employees of the Company or an affiliate of the Company.

The following are the members of the Audit Committee:

Name	Independent ⁽¹⁾ (Yes/No)	Financially Literate ⁽¹⁾ (Yes/No)
Mike Stier	No	Yes
Chris Cooper ⁽²⁾	Yes	Yes
Daryn Gordon	Yes	Yes

Notes:

(1) Within the meaning of NI 52-110.

(2) Chair of the Audit Committee.

Mike Stier is not considered to be "independent" with the meaning of National Instrument 52-110 *Audit Committees*, as he is an executive officer of the Company.

Relevant Education and Experience

In addition to each member's general business experience, the education and experience of each Audit Committee member is set out below.

Mike Stier - Mr. Stier previously worked as an IIROC licensed senior financial advisor at CIBC's Imperial Service Division from December 2009 to June 2015. Mr. Stier joined a private equity company as an equity trader managing a portfolio of \$20 million in private funds, analyzing and executing trades. Mr.

Stier is a former CEO and member of the audit committee and current Director of Optimi Health Corp. (OPTI:CSE). Mr. Stier studied business management at Kwantlen Polytechnic University and Okanagan College, specializing in finance.

Chris Cooper – Mr. Cooper has over 20 years of business experience in various aspects of corporate development, senior management, finance and operations, in both the private and public sectors. Mr. Cooper received a B.A. from Hofstra University and an M.B.A. from Dowling College, both in New York State. Mr. Cooper has over 17 years of experience in management and finance in the oil and gas industry and other business sectors and has experience raising funds through brokered and non-brokered equity issues, as well as debt financings for various companies in which he has been involved. Mr. Cooper sits on the audit committee and compensation committee for other reporting issuers, including Alpha Lithium Corp., Level 14 Ventures and Global Helium Corp.. His experience includes implementing growth strategies, financial reporting, quarterly and annual budgets and overseeing corporate administration, while achieving company objectives and maintaining internal cost controls.

Daryn Gordon – Mr. Gordon is a Chartered Professional Accountant with over 20 years' experience. Previously he was CFO, Secretary & Non-Independent Director at Aroway Energy, Inc., Chief Financial Officer & Secretary for Reparo Energy Partners Corp., Chief Financial Officer for Silver Mountain Mines, Inc., Chief Financial Officer & Non-Independent Director at Emperor Oil Ltd., Chief Financial Officer of Sparta Capital Ltd., and Principal at Abacus Financial Corp. Mr. Gordon is a member of the Institute of Chartered Professional Accountants of Alberta.

Mandate and responsibilities of the Audit Committee

The Audit Committee's mandate and responsibilities include: (i) reviewing and recommending for approval to the Board the financial statements, accounting policies that affect the statements, annual MD&A and associated press releases; (ii) being satisfied that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements and periodically assessing those procedures; (iii) establishing and maintaining compliant procedures regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters; (iv) overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing such other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting; (v) pre-approving all non-audit services to be provided to the Company or its subsidiary entities by the external auditor; (vi) reviewing and monitoring the processes in place to identify and manage the principal risks that could impact the financial reporting of the Company; and (vii) reviewing and approving the Company's hiring policies regarding partners, employees, and former partners and employees of the present and former external auditor of the Company.

The Audit Committee is to meet at least quarterly to review financial statements and MD&A and to meet with the Company's external auditors at least once a year.

Audit Committee Oversight

At no time since commencement of the issuer's most recently completed financial year was a recommendation of the Audit Committee to nominate or compensate an external auditor not adopted by the Board.

Reliance on Certain Exemptions

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

The Company will rely on the exemptions provided for “venture issuers” in section 6.1 of NI 52-110 with respect to Part 3 – Composition of the Audit Committee and Part 5 – Reporting Obligations.

Pre-Approval Policies and Procedures for Non-Audit Services

The Audit Committee is required to approve the engagement of the Company’s external auditors in respect of non-audit services.

External Auditor Service Fees

The Audit Committee has reviewed the nature and amount of the non-audit services provided by Davidson & Company LLP to ensure auditor independence. The following table sets out the aggregate fees billed by Davidson & Company LLP from the date of incorporation to the date of this AIF for each category of fees described:

Financial Year Ending	Audit Fees⁽¹⁾	Audit Related Fees⁽²⁾	Tax Fees⁽³⁾	All Other Fees⁽⁴⁾
December 31, 2021	\$126,188	Nil	\$7,750	Nil
December 31, 2020	\$105,750	Nil	Nil	Nil

Notes:

- (1) Includes fees necessary to perform the annual audit and quarterly reviews of the Company’s financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit Fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of securities filings and statutory audits.
- (2) Includes services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.
- (3) Includes fees for all tax services other than those included in “Audit Fees” and “Audit-Related Fees”. This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.
- (4) Includes all other non-audit services, the aggregate fees billed for products and services, other than the services reported under “Audit Fees”, “Audit-Related Fees” and “Tax Fees”.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

The Company may from time to time be involved in legal proceedings of a nature considered normal to its business. There are no legal proceedings the Company is or was a party to, or that any of its property is or was the subject of, since the beginning of the most recently completed financial year for which financial statements of the Company are included in this AIF.

Regulatory Actions

There have not been any penalties or sanctions imposed against the Company by a court relating to provincial or territorial securities legislation or by a securities regulatory authority, nor have there been any other penalties or sanctions imposed by a court or regulatory body against the Company, and the Company has not entered into any settlement agreements before a court relating to provincial or territorial securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, no insider, director or executive officer of the Company and no associate of any director, executive officer, or insider has any material interest, direct or indirect, in any transaction within the three years before the date of this AIF that has materially affected or is reasonably expected to materially affect the Company. See: “*Executive Compensation*” and “*Description of the Business*”.

Mr. White, a director of the Company, controls South Kenyon Street Holdings, LLC, which owns the property located at 470 South Kenyon Street, Seattle Washington and comprises part of the Facility. The Facility consists of 460 South Kenyon Street, a 13,500 square foot building that houses all of the indoor cultivation for the facility, and 470 South Kenyon, a 19,000 square foot building that consists of 7,000 square feet of office space and a shared processing area.

PROMOTERS

Mike Stier, President, CEO and a director of the Company, has been a promoter of the Company since its incorporation. Since the incorporation of the Company, Mr. Stier has received an aggregate sum of \$257,000 in consulting fees, a portion of which fees were paid through the issuance of 500,000 fully-vested restricted share rights (“**RSR**”), with the result that as of the date of this AIF, Mike Stier beneficially owns, controls, or directs, directly or indirectly 327,500 Common Shares representing 0.55% of the issued and outstanding Common Shares on a non-diluted basis as of the date of this AIF. See also “*Executive Compensation*”.

No promoter of the Company is, as at the date of this AIF, or has been within the 10 years prior to the date of this AIF, a director or executive officer of any person or company that, while the promoter was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No promoter of the Company has, within the 10 years prior to the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the promoter.

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent of the Common Shares is Odyssey Trust Corporation at its Vancouver office located at the United Kingdom Building, 350-409 Granville Street, Vancouver, British Columbia, V6C 1T2.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only material contracts entered into by the Company or the New Leaf Entities within the most recently completed year, or before the most recently completed financial year but which are still in effect and which can reasonably be regarded as presently material, are the following:

- (1) Warrant Indenture;
- (2) Equipment lease agreement between EquipmentCo and the License Holder dated June 27, 2019, as amended by amending agreement dated October 11, 2019;
- (3) Intellectual property license agreement between IPCo and the License Holder dated June 27, 2019, as amended by amending agreement dated October 11, 2019;

- (4) Services agreement between ServicesCo and the License Holder dated August 21, 2019, as amended by amending agreement dated October 11, 2019;
- (5) Option Agreement;
- (6) Lease assignment agreement between RealEstateCo and License Holder with respect to the property located at 460 S. Kenyon St., Seattle Washington;
- (7) Lease assignment agreement between RealEstateCo and License Holder with respect to the property located at 470 S. Kenyon St., Seattle Washington; and
- (8) Equity distribution agreement between Research Capital Corporation and the Company dated November 15, 2021 with respect to sales of Common Shares having an aggregate sales price of up to \$10,000,000 under the ATM Program

INTERESTS OF EXPERTS

The independent auditors of New Leaf are Smythe LLP, Chartered Professional Accountants ("**Smythe**"). Smythe has informed New Leaf that it is independent with respect to New Leaf within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of British Columbia.

ADDITIONAL INFORMATION

Additional financial information about New Leaf can be found in New Leaf's financial statements and management's discussion and analysis for the fiscal year ended December 31, 2021. Additional information relating to New Leaf may be found on SEDAR at www.sedar.com.

SCHEDULE “A”
Audit Committee Charter

The Audit Committee (the “**Committee**”) is a committee of the board of directors (the “**Board**”) of the Company. The role of the Committee is to provide oversight of the Company’s financial management and of the design and implementation of an effective system of internal financial controls as well as to review and report to the Board on the integrity of the financial statements of the Company, its subsidiaries and associated companies. This includes helping directors meet their responsibilities, facilitating better communication between directors and the external auditor, enhancing the independence of the external auditor, increasing the credibility and objectivity of financial reports and strengthening the role of the directors by facilitating in-depth discussions among directors, management and the external auditor. Management is responsible for establishing and maintaining those controls, procedures and processes and the Committee is appointed by the Board to review and monitor them. The Company’s external auditor is ultimately accountable to the Board and the Committee as representatives of the Company’s shareholders.

Duties and Responsibilities

External Auditor

- (a) To recommend to the Board, for shareholder approval, an external auditor to examine the Company’s accounts, controls and financial statements on the basis that the external auditor is accountable to the Board and the Committee as representatives of the shareholders of the Company.
- (b) To oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting.
- (c) To evaluate the audit services provided by the external auditor, pre-approve all audit fees and recommend to the Board, if necessary, the replacement of the external auditor.
- (d) To pre-approve any non-audit services to be provided to the Company by the external auditor and the fees for those services.
- (e) To obtain and review, at least annually, a written report by the external auditor setting out the auditor’s internal quality-control procedures, any material issues raised by the auditor’s internal quality-control reviews and the steps taken to resolve those issues.
- (f) To review and approve the Company’s hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Company. The Committee has adopted the following guidelines regarding the hiring of any partner, employee, reviewing tax professional or other person providing audit assurance to the external auditor of the Company on any aspect of its certification of the Company’s financial statements:
 - (i) No member of the audit team that is auditing a business of the Company can be hired into that business or into a position to which that business reports for a period of three years after the audit;
 - (ii) No former partner or employee of the external auditor may be made an officer of the Company or any of its subsidiaries for three years following the end of the individual’s association with the external auditor;

- (iii) The Chief Financial Officer (“CFO”) must approve all office hires from the external auditor; and
 - (iv) The CFO must report annually to the Committee on any hires within these guidelines during the preceding year.
- (g) To review, at least annually, the relationships between the Company and the external auditor in order to establish the independence of the external auditor.

Financial Information and Reporting

- (a) To review the Company's annual audited financial statements with the Chief Executive Officer (“CEO”) and CFO and then the full Board. The Committee will review the interim financial statements with the CEO and CFO.
- (b) To review and discuss with management and the external auditor, as appropriate:
 - (i) The annual audited financial statements and the interim financial statements, including the accompanying management discussion and analysis; and
 - (ii) Earnings guidance and other releases containing information taken from the Company's financial statements prior to their release.
- (c) To review the quality and not just the acceptability of the Company's financial reporting and accounting standards and principles and any proposed material changes to them or their application.
- (d) To review with the CFO any earnings guidance to be issued by the Company and any news release containing financial information taken from the Company's financial statements prior to the release of the financial statements to the public. In addition, the CFO must review with the Committee the substance of any presentations to analysts or rating agencies that contain a change in strategy or outlook.

Oversight

- (a) To review the internal audit staff functions, including:
 - (i) The purpose, authority and organizational reporting lines;
 - (ii) The annual audit plan, budget and staffing; and
 - (iii) The appointment and compensation of the controller, if any.
- (b) To review, with the CFO and others, as appropriate, the Company's internal system of audit controls and the results of internal audits.
- (c) To review and monitor the Company's major financial risks and risk management policies and the steps taken by management to mitigate those risks.
- (d) To meet at least annually with management (including the CFO), the internal audit staff, and the external auditor in separate executive sessions and review issues and matters of concern respecting audits and financial reporting.
- (e) In connection with its review of the annual audited financial statements and interim financial statements, the Committee will also review the process for the CEO and CFO certifications (if

required by law or regulation) with respect to the financial statements and the Company's disclosure and internal controls, including any material deficiencies or changes in those controls.

Membership

- (a) The Committee shall consist solely of three or more members of the Board, the majority of which the Board has determined has no material relationship with the Company and is otherwise "unrelated" or "independent" as required under applicable securities rules or applicable stock exchange rules.
- (b) Any member may be removed from office or replaced at any time by the Board and shall cease to be a member upon ceasing to be a director. Each member of the Committee shall hold office until the close of the next annual meeting of shareholders of the Company or until the member ceases to be a director, resigns or is replaced, whichever first occurs.
- (c) The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine.
- (d) All members of the Committee must be "financially literate" (i.e., have the ability to read and understand a set of financial statements such as a balance sheet, an income statement and a cash flow statement).

Procedures

- (a) The Board shall appoint one of the directors elected to the Committee as the Chair of the Committee (the "**Chair**"). In the absence of the appointed Chair from any meeting of the Committee, the members shall elect a Chair from those in attendance to act as Chair of the meeting.
- (b) The Chair will appoint a secretary (the "**Secretary**") who will keep minutes of all meetings. The Secretary does not have to be a member of the Committee or a director and can be changed by simple notice from the Chair.
- (c) No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum, provided that if the number of members of the Committee is an even number, one-half of the number of members plus one shall constitute a quorum and provided that a majority of the members must be "independent" or "unrelated".
- (d) The Committee will meet as many times as is necessary to carry out its responsibilities. Any member of the Committee or the external auditor may call meetings.
- (e) The time and place of the meetings of the Committee, the calling of meetings and the procedure in all respects of such meetings shall be determined by the Committee, unless otherwise provided for in the articles of the Company or otherwise determined by resolution of the Board.
- (f) The Committee shall have the resources and authority necessary to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms (including termination) of special counsel, advisors or other experts or consultants, as it deems appropriate.

- (g) The Committee shall have access to any and all books and records of the Company necessary for the execution of the Committee's obligations and shall discuss with the CEO or the CFO such records and other matters considered appropriate.
- (h) The Committee has the authority to communicate directly with the internal and external auditors.

Reports

The Committee shall produce the following reports and provide them to the Board:

- (a) An annual performance evaluation of the Committee, which evaluation must compare the performance of the Committee with the requirements of this Charter. The performance evaluation should also recommend to the Board any improvements to this Charter deemed necessary or desirable by the Committee. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board may take the form of an oral report by the Chair or any other member of the Committee designated by the Committee to make this report.
- (b) A summary of the actions taken at each Committee meeting, which shall be presented to the Board at the next Board meeting.