

TILT **HOLDINGS**

TILT HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE QUARTERS AND YEAR ENDED DECEMBER 31, 2020 AND 2019

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TILT HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

FOR THE QUARTERS AND YEAR ENDED DECEMBER 31, 2020 AND 2019

Background

This management's discussion and analysis (the "MD&A") of financial condition and results of operations for TILT Holdings Inc. ("TILT", the "Issuer" or the "Company") is prepared as of April 14, 2021 and is intended to assist in the understanding and assessment of trends and significant changes in the results of operations and financial condition of the Company. As such, it should be read in conjunction with the consolidated financial statements for years ended December 31, 2020 and 2019 and accompanying notes thereto (the "Financial Statements"), which were prepared in accordance with the International Financial Reporting Standards ("IFRS").

Unless otherwise stated, all dollar figures included herein and in the following MD&A are quoted in thousands of United States dollars, except per share amounts or as otherwise stated.

Non-IFRS Financial and Performance Measures

In addition to providing financial measurements based on IFRS, the Company provides additional financial metrics that are not prepared in accordance with IFRS. Management uses non-IFRS financial measures, in addition to IFRS financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes and to evaluate the Company's financial performance. These non-IFRS financial measures are EBITDA, Adjusted EBITDA, and Working Capital.

Management of the Company believes that these non-IFRS financial measures reflect the Company's ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as they facilitate comparing financial results across accounting periods and to those of peer companies. Management also believes that these non-IFRS financial measures enable investors to evaluate the Company's operating results and future prospects in the same manner as management. These non-IFRS financial measures may also exclude expenses and gains that may be unusual in nature, infrequent or not reflective of the Company's ongoing operating results.

As there are no standardized methods of calculating these non-IFRS measures, the Company's methods may differ from those used by others, and accordingly, the use of these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are financial measures that are not defined under IFRS. The Company uses these non-IFRS financial measures, and believes they enhance an investor's understanding of the Company's financial and operating performance from period to period, because they exclude certain material non-cash items and certain other adjustments management believes are not reflective of the Company's ongoing operations and performance. The Company calculates EBITDA as net income (loss), plus (minus) income taxes (recovery), plus (minus) finance expense (income), plus depreciation and amortization expense. Adjusted EBITDA excludes certain one-time, non-cash or non-operating expenses, as determined by management, including stock compensation expense, business acquisition expense, debt issuance costs, severance, unrealized (gain) loss on changes in fair value of biological assets and fair value changes in biological assets included in inventory sold. A reconciliation of EBITDA and Adjusted EBITDA to IFRS measures can be found under "*Reconciliation of Net Income (loss) to Non-IFRS Measures*".

Working Capital

The calculation of working capital provides additional information and is not defined under IFRS. The Company defines working capital as current assets less current liabilities. This measure should not be considered in isolation or as a substitute for any standardized measure under IFRS. This information is intended to provide investors with information about the Company's liquidity. Other businesses in the Company's industry may calculate this differently than the Company does, limiting its usefulness as a comparative measure. A reconciliation of working capital to IFRS measures can be found under "*Q4 2020 Financial Condition Including Liquidity and Capital Resources*".

Forward-Looking Statements

Certain statements in this MD&A may contain "forward-looking information" within the meaning of applicable securities laws (collectively, "**forward-looking statements**"). Such statements include, but are not limited to, statements with respect to expectations, projections, or other characterizations of future events or circumstances, and our objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to our plans and objectives, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities. These statements are subject to certain risks, assumptions and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words "believe", "plan", "intend", "estimate", "expect", "intend", "likely", "potential", "proposed" or "anticipate", and similar expressions, as well as future or conditional verbs such as "will", "should", "would" and "could" often identify forward-looking statements.

Examples of forward-looking statements in this MD&A include:

- o Expected timelines associated with obtaining any licenses or permits for existing and future medical and/or adult-use dispensaries as well as construction and opening of additional facilities.
- o The expected timing and anticipated outcome of any regulatory or litigation matters.
- o The Company's ability to manage its expected growth and expansion, including introduction of new products, technologies and services to the marketplace.

- o The Company's expectations for the effects of civil unrest and pandemic outbreaks on the businesses' operations and financial condition.

Management of the Company has based the aforementioned forward-looking statements in this MD&A on its current views with respect to future events and financial performance and has made assumptions and applied certain factors regarding, among other things: future product pricing; costs of inputs; the Company's ability to successfully market its products to its anticipated clients; the Company's reliance on its key personnel; certain regulatory requirements; the application of federal and state environmental laws; the impact of increasing competition; the ability to obtain additional financing on favorable terms; the receipt of applicable regulatory approvals; and the regulatory environments in which the Company operates.

These forward-looking statements are also subject to the risks and uncertainties discussed in the "Risks Factors" section of the Company's Listing Statement filed with the Canadian Securities Exchange ("CSE") and on SEDAR on December 5, 2018 and elsewhere in this MD&A and other risks detailed from time to time in the publicly filed disclosure documents of the Company which are available at www.sedar.com. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and assumptions which could cause actual results to differ materially from the conclusions, forecasts or projections anticipated in these forward-looking statements. Due to these risks, uncertainties, and assumptions, the reader should not place undue reliance on these forward-looking statements. To the extent any forward-looking information in this MD&A constitutes future-oriented financial information or financial outlook, within the meaning of applicable securities laws, such information is being provided to demonstrate the potential of the Company and readers are cautioned that this information may not be appropriate for any other purpose. The Company's forward-looking statements are made only as of the date of this MD&A, and except as required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements to reflect new information, future events or circumstances.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. The purpose of forward-looking statements is to provide the reader with a description of management's expectations, and such forward-looking statements may not be appropriate for any other purpose.

These forward-looking statements and related risks herein, which are further discussed in the "*Risk Factors and Uncertainties*" section, may not represent all risks to the Company and readers are cautioned not to place undue reliance on these forward-looking statements and related risks.

How We Assess Our Business

The Company utilizes several metrics to measure and track the performance and progress of our business. We refer to certain key performance indicators used by us and generally used by our competitors in the global cannabis industry. Some of the metrics used by us are not defined under IFRS. See “*Non-IFRS Financial and Performance Measures*” and “*Reconciliation of Net Income (loss) to Non-IFRS Measures*”.

Revenue Recognition

In May 2014, the IASB issued IFRS 15, which provides a single, principles based five-step model for revenue recognition to be applied to all customer contracts and requires enhanced disclosures.

Revenue recognition is determined through the following five steps:

- identification of the contract with the customer;
- identification of the performance obligation in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenue represents the amount the Company expects to receive for goods and services in its contracts with customers, net of discounts and sales taxes. The Company’s revenue is derived from the following:

- *Sale of Goods - Vaporization and Inhalation Devices:*

Revenue from the wholesale sales of accessories is recognized when the Company transfers control and satisfies its performance obligations on wholesale sales of accessories. Revenue is recognized from product sales based upon the specific terms with the customer, which is the point at which title passes and is typically when the product has been shipped to the customer.

- *Sale of Goods – Cannabis:*

Revenue from the direct sale of goods to customers for a fixed price is recognized when the Company transfers control of the good to the customer. The Company transfers control and satisfies its performance obligations on retail sales upon delivery and acceptance from the customer. For dispensary sales, this occurs at the point of sale at the dispensary. The Company satisfies its performance obligation on wholesale sales when goods are delivered to the customer.

Shipping and handling costs, if applicable, are included in cost of sales.

- *Sale of Logistic Services:*

Revenue from transportation and distribution services of cannabis products from business to business, retailing to consumers, are recognized at a point in time when control over the goods have been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer.

Gross Profit before Fair Value Adjustments to Biological Assets and Inventory

Gross profit before fair value adjustments to biological assets and inventory reflects our revenue less our production costs primarily consisting of labor, materials, rent and facilities, supplies, overhead, amortization on production equipment, shipping, packaging and other expenses required to grow and manufacture cannabis products.

Gross Profit after Fair Value Adjustments to Biological Assets and Inventory

Production costs related to the transformation of biological assets to the point of harvest are capitalized and included in the fair value measurement of the biological assets. Once goods are sold, the associated capitalized costs are recognized as production costs in the statement of operations for the period.

In calculating the fair value of biological assets and inventory, management is required to make a number of estimates, including but not limited to, the stage of growth of the plant up to the point of harvest, harvesting costs, selling costs, average or expected selling and list prices, expected yields for the plants, and oil conversion factors. Additional information regarding estimates used in determining the fair value of biological assets can be found in the Financial Statements under "Note 6 - Biological Assets".

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgments related to the valuation of biological assets are also applicable for inventory. The valuation of work- in-process and finished goods also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

Gross profit after fair value adjustments to biological assets and inventory is calculated as gross profit before fair value adjustments to biological assets and inventory net of: (i) fair value adjustments to biological assets, consisting of cannabis plants measured at fair value less estimated costs to sell up to the point of harvest and (ii) fair value adjustments relieved from inventory when sold. Biological assets are transferred into inventory at their fair value at the point of harvest less costs to sell, which becomes the cost of the inventory which, upon sale, the fair value cost adjustment portion is expensed to finished harvest inventory sold.

Operating Expenses

Operating expenses primarily include share-based compensation, wages and benefits, professional fees, rent and facilities expenses, depreciation and amortization, advertising and marketing expenses, licenses, fees and taxes, insurance expenses, travel expenses and other general and administrative expenses.

Company Overview

Summary

TILT is a business solutions provider to the global cannabis industry offering a diverse range of value-added products and services to industry participants. TILT provides solutions for its clients at key junctures in the value chain, enabling clients to operate more efficiently and connect with consumers more effectively. Through a portfolio of companies providing inhalation technology, hardware, cultivation, manufacturing, processing, brand development and retail, TILT services brands and cannabis retailers across 35 states in the U.S., as well as Canada, Israel, Mexico, South America and the European Union.

As at December 31, 2020, the Company was organized into two main business units: (1) Inhalation Technology; and (2) Cultivation and Retail. TILT is headquartered in Phoenix, Arizona.

TILT Mission and Strategy

TILT provides innovative, unique and cost-effective business solutions to its customers across the cannabis industry value chain. The Company's core mission is to help its customers build brands by offering unique products, solutions and services that deliver added value to consumers, multi-state cannabis operators, licensed producers and cannabis brands around the globe. TILT believes that its clients rely on the Company for its expertise to help address growing supply chain specialization and complexity in cannabis industry retailing and wholesaling.

Inhalation Technology – Jupiter Research

Jupiter Research, LLC (“**Jupiter**”) is a market leader in providing customized solutions for brand and retail businesses offering products in the inhalation and vape segment – the second largest in its product category in the cannabis industry. Jupiter's “Designed in Arizona, Manufactured in China” business model leverages in-house technical and product design acumen along with supply chain expertise to deliver unique and reliable products engineered to the high industry safety standards. Jupiter partners with Shenzhen-based Smoore Technology to incorporate industry-leading CCELL technology in Jupiter's product solutions.

Cultivation and Retail – Commonwealth Alternative Care and Standard Farms

Through its wholly-owned subsidiary Commonwealth Alternative Care Inc. (“**CAC**”), TILT operates a vertically integrated medical marijuana cultivation facility, product manufacturing facility, and medical marijuana dispensary in Taunton, Massachusetts. Recently completed construction projects have increased this facility's structural footprint to 117,000 square feet including more than 56,000 square feet of cultivation space. Medical dispensary licenses at CAC's Brockton and Cambridge locations, and adult-use Retailer licenses in Taunton and Brockton, are all in the approval process with the Massachusetts Cannabis Control Commission (“**CCC**”) pending resolution of outstanding issues related to prior affiliate relationships.

TILT has a cultivation and production presence in Pennsylvania through its wholly-owned subsidiary, Standard Farms LLC (“**Standard Farms**”). Standard Farms supplies medical cannabis products, including vape cartridges, flower and capsules, to more than 90 percent of the state's dispensaries. Standard Farms was founded in 2017 in White Haven, Pennsylvania where it operates a facility that includes 33,500 square feet of canopy capacity.

Discontinued Operations – Blackbird

On November 18, 2020, the Company announced that it had entered into a securities purchase agreement (the “**Agreement**”) for the sale of all of the membership interests of Yaris Acquisition, LLC (dba. Blackbird) (“**Blackbird**”) by Baker Technologies, Inc. (“**Baker**”), an indirect wholly owned subsidiary of the Company, in order to improve TILT’s profitability and free up cash flow with a proposed agreement structure that would allow TILT to participate in Blackbird’s future success (the “**Blackbird Sale**”). On November 30, 2020, the Company completed the Blackbird Sale. For further information see “*Key Developments During Q4 2020*”. The Agreement, including the form of promissory note associated therewith (the “**Promissory Note**”), is available on the Company’s SEDAR profile at www.sedar.ca.

Prior to the Blackbird Sale, through its Blackbird division, TILT provided end-to-end software and logistics solutions for the cannabis industry. The “My Blackbird” online portal provided a business-to-business logistics platform for cultivators, brands and retailers to manage the downstream movement of products through the supply chain. Additionally, the Blackbird solutions suite connected brands and retailers with end consumers through the business-to-consumer (“**B2C**”) BlackbirdGo.com product. The Blackbird platform helped cannabis businesses build relationships with their retail customers through SMS and MMS messaging, customer loyalty programs, targeted marketing solutions, digital menus and online ordering and e-commerce. Blackbird also provided a B2C customer last mile solution in Nevada where it provided retail delivery services for cannabis retail businesses.

Industry Trends

TILT’s clients include large multi-state operators, licensed producers, single state operators, houses of brands, cultivators, processors, extractors and retailers in the United States (“**U.S.**”), Canada and other international markets focused on building brands in a highly competitive marketplace. TILT’s customers are experiencing a rapid proliferation of branded products competing for shelf space and customer awareness against a backdrop of growing supply chain and distribution channel specialization and competition. The regulatory environment is complex and continues to evolve. Additionally, there are a limited number of outlets for marketing spend to promote customer acquisition and brand building.

Corporate Structure

The following are the Company's principal consolidated entities and the Company's ownership interest in each that are included in the Financial Statements for the reporting period ended December 31, 2020:

Major Subsidiaries	Place of Incorporation	Ownership Percentage
Jimmy Jang Holdings Inc.	British Columbia	100%
Jimmy Jang, L.P.	Delaware	100%
Santé Veritas Holdings Inc. ("SVT")	British Columbia	100%
Jupiter Research, LLC	Arizona	100%
Baker Technologies Inc.	Delaware	100%
Standard Farms LLC	Pennsylvania	100%
Sea Hunter Therapeutics, LLC	Delaware	100%
Commonwealth Alternative Care, Inc.	Massachusetts	100%

Key Developments During Q4 2020

Facility Approval

On October 9, 2020, TILT announced that it had received regulatory approval to commence operations at its subsidiary, CAC's, expanded cultivation facility in Taunton, Massachusetts. The regulatory approval added another 10,000 square feet of flower rooms and increased TILT's overall flower canopy by more than 50%.

Executive Changes

On October 28, 2020, TILT announced that, effective immediately, Gary Santo would be promoted to President of TILT where, among his responsibilities, he would oversee long-term strategic planning and capital allocation for the Company. Concurrently, Brad Hoch was officially appointed TILT's Chief Financial Officer, removing his interim title.

Partnership

On November 10, 2020, TILT announced an expanded partnership with Kanabo Research, an Israeli-based leading researcher and developer of cannabis and CBD-derived medical cannabis solutions and inhalation devices.

Blackbird Sale

On November 30, 2020, TILT completed the BlackBird Sale to Slam Dunk, LLC, a Nevada limited liability corporation controlled by Tim Conder, TILT's former Chief Operating Officer and a member of the board of directors of the Company (the "**Board**"). In accordance with the terms of the Agreement, Mr. Conder resigned from his position as the Chief Operating Officer of the Company upon the closing of the Blackbird Sale. The Agreement, including the form of Promissory Note, is available on the Company's SEDAR profile at www.sedar.ca.

Key Developments Subsequent to Q4 2020

Common Share Accessibility

On January 8, 2021, TILT announced that the company had been approved for immediate trading on the OTCQX Best Market under the symbol "TLLTF".

ISO Certification

On January 12, 2021, TILT announced that its subsidiary, Jupiter, had obtained ISO 13485:2016 certification of its Quality Management System for medical devices. The qualification verifies that Jupiter adequately fulfills regulatory requirements and specifications established by the International Organization for Standardization for medical device development and quality management systems. Jupiter can now design and manufacture its own medical device components, as well as act as contract manufacturer for third party companies, allowing Jupiter to supply the U.S. and European medical cannabis markets with medical-grade inhalation devices.

Litigation

In July 2019, Richard Komaiko and Marcie Cooperman (the “**Plaintiffs**”) filed suit, on behalf of themselves and others similarly situated, against TILT and its subsidiary, Baker, alleging they violated federal law by spamming the Plaintiffs and other customers with unsolicited text message marketing. The lawsuit, which was filed in the U.S. District Court for the Northern District of California, alleged that TILT and Baker violated the federal Telephone Consumer Protection Act and California’s Unfair Competition Law.

The Court dismissed without prejudice the claims against TILT for lack of personal jurisdiction and denied the Plaintiffs’ request for jurisdictional discovery against TILT. The Court subsequently granted Baker’s motion to stay the case pending a forthcoming Supreme Court ruling and while the case was stayed, Baker and the Plaintiffs participated in a settlement conference and agreed to settle the Plaintiffs’ individual claims against Baker. The lawsuit was subsequently dismissed, with prejudice, and the terms of the confidential settlement were finalized in January 2021.

Loans Receivable

On February 9, 2021, TILT entered into a promissory note with PBM Enterprises, LLC, amending and restating in its entirety the original note entered into during May 2020. The promissory note includes a principal balance of \$1,250, with an interest rate of zero percent and a maturity date of December 31, 2022.

On February 22, 2021, TILT announced the assignment by its subsidiary, SH Finance Company, LLC, of the loan and security agreement entered into with Ermont, Inc. (the “**Ermont Note**”) to Teneo Funds SPVi LLC, through an arm’s-length third-party transaction, in exchange for \$1,250 in cash and a portion of future collections pursuant to the Ermont Note. The assignment agreement contains standard representations, warranties and indemnifications between the parties.

Facility Approval

On March 2, 2021, TILT announced that it had received regulatory approval from the CCC to commence operation of eight additional grow rooms at its subsidiary, CAC. The Company began cultivation operations in the newly approved space later in March.

Completed Acquisition

On March 15, 2021, TILT completed its acquisition of Standard Farms Ohio LLC (“**SFO**”), previously announced on April 16, 2019. SFO’s purpose-built 9,600 sq. ft. processing and CO2 extraction facility is located just outside of Cleveland, providing ready access to the state’s 52 operating dispensaries. The facility currently produces high-quality medical cannabis products including tinctures, vaporization cartridges, syringes and topicals, with the Company expecting to expand its product offerings to include concentrates and edibles inspired by TILT’s operations in Massachusetts and Pennsylvania.

Selected Financial and Operational Highlights

TILT reports the result of operations of its affiliates and subsidiaries from the date that control commences, either through the purchase of the business or control through a management agreement. The following selected financial information includes only the results of operations after the Company established control of its affiliates and subsidiaries. Accordingly, the information included below may not be representative of the results of operations if such affiliates or subsidiaries had their results of operations included for the entire reporting period.

The following is selected financial data derived from the consolidated financial statements of the Company for the three months and year ended December 31, 2020, (“Q4 2020” and “YE December 2020”, respectively) and 2019 (“Q4 2019” and “YE December 2019”, respectively), the three months ended September 30, 2020 (“Q3 2020”) and the year ended December 31, 2018. The selected consolidated financial information set out below may not be indicative of future performance:

(\$ thousands)	Three Months Ended			Year Ended		
	Dec 31, 2020	Sep 30, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Revenue	\$ 42,265	\$ 39,083	\$ 31,225	\$ 158,409	\$ 146,935	\$ 3,502
Cost of Goods Sold	30,985	26,846	23,517	111,738	106,236	3,360
Gross Profit, <i>Before FV Adj.</i>	11,280	12,237	7,708	46,671	40,699	142
Gross Margin %, <i>Before FV Adj.</i>	26.7%	31.3%	24.7%	29.5%	27.7%	4.1%
Gain on FV of Bio. Assets	13,650	14,477	9,250	47,298	37,459	151
FV of Bio. Assets in Inventory Sold	(14,063)	(7,870)	(5,348)	(35,014)	(19,790)	-
Gross Profit, <i>After FV Adj.</i>	10,867	18,844	11,610	58,955	58,368	293
Gross Margin %, <i>After FV Adj.</i>	25.7%	48.2%	37.2%	37.2%	39.7%	8.4%
Total Operating Expenses	49,703	14,453	38,613	93,552	170,354	56,582
Income (Loss) from Continuing Operations	(38,836)	4,391	(27,003)	(34,597)	(111,985)	(56,289)
Total Other Income (Expense)	(15,841)	(2,476)	(9,200)	(22,552)	(13,217)	(493,782)
Income Tax Expense (Recovery)	(9,313)	3,639	(4,582)	(5,043)	(3,275)	48
Net (Loss) from Continuing Operations	(45,364)	(1,724)	(31,621)	(52,107)	(121,927)	(550,119)
Net (Loss) from discontinued operations, net of tax	(46,783)	(2,893)	(1,050)	(53,650)	(11,447)	-
Net (Loss)	\$ (92,147)	\$ (4,617)	\$ (32,671)	\$ (105,757)	\$ (133,374)	\$ (550,119)
EBITDA, Non-IFRS	(49,612)	9,673	(27,881)	(29,032)	(89,022)	(551,621)
Adjusted EBITDA, Non-IFRS	\$ 4,545	\$ 5,063	\$ 1,564	\$ 16,924	\$ (845)	\$ (22,634)

(\$ thousands)	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Cash and Cash Equivalents	\$ 7,427	\$ 2,580	\$ 97,247
Biological Assets	11,201	8,580	1,868
Inventory	52,634	48,169	6,667
Total Current Assets	101,889	94,708	125,948
Property, Plant & Equipment, Net	66,795	80,576	50,692
Total Assets	429,604	545,903	221,236
Total Current Liabilities	44,488	50,365	14,661
Total Long-Term Liabilities	102,069	111,672	1,711
Total Shareholders' Equity	283,047	383,866	204,864
Working Capital	57,401	44,343	111,287

Summary of Quarterly Results

Quarter	Three Months Ended	Revenue	Net Income (Loss)	Net Earnings (Loss) Per Share - Basic and Diluted
Q4 2020	Dec. 31, 2020	\$43,203	(\$92,147)	(\$0.26)
Q3 2020	Sep. 30, 2020	\$40,439	(\$4,617)	(\$0.01)
Q2 2020	Jun. 30, 2020	\$38,589	(\$9,044)	(\$0.02)
Q1 2020	Mar. 31, 2020	\$42,425	\$51	\$0.00
Q4 2019	Dec. 31, 2019	\$33,430	(\$32,671)	(\$0.09)
Q3 2019	Sep. 30, 2019	\$46,123	\$26,133	\$0.10
Q2 2019	Jun. 30, 2019	\$39,007	(\$48,940)	(\$0.16)
Q1 2019	Mar. 31, 2019	\$34,378	(\$77,896)	(\$0.22)

(\$ thousands except per share amounts)

Certain prior period amounts have been reclassified to conform with the current presentation. Amounts inclusive of Blackbird.

Q4 2020 and YE December 2020 Results of Continuing Operations**Revenue**

Revenue for Q4 2020 was \$42.3 million, up from \$39.1 million for Q3 2020, reflecting a quarter-over-quarter increase of \$3.2 million or 8.1%. The increase in revenue was primarily driven by the Company's Massachusetts and Pennsylvania cannabis operations due to increased harvest yields.

Revenue for Q4 2020 increased \$11.0 million or 35.4% year-over-year, from \$31.2 million in Q4 2019. The year-over-year increase in revenue is primarily related to the multi-state bans on the sale of cannabis vaporization devices in Q4 2019 which materially suppressed sales volume at Jupiter during that period. Further, year-over-year revenue growth in the Company's cannabis operations driven by increased harvest yields and a wider product portfolio contributed to increased Q4 2020 revenue.

Revenue for YE December 2020 was \$158.4 million, an increase of \$11.5 million or 7.8% from \$146.9 million for YE December 2019. The year-over-year increase in revenue is primarily attributable to volume growth in the cannabis segment related to expanded canopy at the Company's Pennsylvania cannabis operation and improved harvest yields across the segment. Additionally, Jupiter contributed increased revenue year-over-year primarily related to the multi-state bans on vaporizer sales which materially suppressed revenue at Jupiter in YE December 2019.

Cost of Goods Sold

Cost of goods sold for Q4 2020 was \$31.0 million, up from \$26.8 million for Q3 2020, reflecting a quarter-over-quarter increase of \$4.1 million or 15.4%. The increase in cost of goods sold is primarily attributable to the reclassification of certain expenses related to cost of goods sold in the Company's cannabis operations and increased sales volume in the segment.

Cost of goods sold for Q4 2020 increased \$7.5 million or 31.8% year-over-year as compared to \$23.5 million for Q4 2019. The year-over-year increase in cost of goods sold is primarily due to increased sales volume at Jupiter.

Cost of goods sold for YE December 2020 was \$111.7 million, up from \$106.2 million for YE December 2019, representing a year-over-year increase of \$5.5 million or 5.2%. The year-over-year increase in cost of goods sold is primarily attributable to increased sales volume at Jupiter and the Company's cannabis operations.

Gross Profit

Before adjusting for changes in the fair value of biological assets and inventory, the Company's gross profit for Q4 2020 was \$11.3 million, down from \$12.2 million for Q3 2020, which reflects a quarter-over-quarter decrease of \$1.0 million or 7.8%. The decrease in gross profit is primarily attributable to the reclassification of certain expenses related to cost of goods sold in the Company's cannabis operations.

Before adjusting for changes in the fair value of biological assets and inventory, the Company's gross margin percentage decreased from 31.3% in Q3 2020 to 26.7% in Q4 2020, reflecting a quarter-over-quarter gross margin percentage decrease of 4.6 points.

After adjusting for changes in the fair value of biological assets and inventory, the Company's gross profit for Q4 2020 was \$10.9 million, down from \$18.8 million in Q3 2020, reflecting a quarter-over-quarter decrease of \$8.0 million. The net impact of changes in fair value of biological assets and inventories for Q4 2020 was (\$0.4) million, down from \$6.6 million for Q3 2020, reflecting a quarter-over-quarter decrease of \$7.0 million.

Before adjusting for changes in the fair value of biological assets and inventories, the Company's gross profit for Q4 2020 was \$11.3 million, up from \$7.7 million for Q4 2019, reflecting a year-over-year increase of \$3.6 million or 46.3%. The year-over-year increase in gross profit is primarily attributable to increased sales volume at Jupiter and the Company's cannabis operations. The Company's gross margin percentage for Q4 2020 before fair value adjustments was 26.7%, an increase of 2.0 points from 24.7% in Q4 2019.

YE December 2020 gross profit before adjusting for changes in the fair value of biological assets and inventories was \$46.7 million, up from \$40.7 million for YE December 2019, representing a year-over-year increase of \$6.0 million or 14.7%. The year-over-year increase in gross profit was mainly driven by the increased volume in the cannabis segment and at Jupiter. The Company's gross margin percentage for YE December 2020 before fair value adjustments was 29.5%, an increase of 1.8 points from the prior year period, primarily driven by margin expansion in the cannabis segment.

After adjusting for changes in the fair value of biological assets and inventories, the Company's gross profit for Q4 2020 was \$10.9 million, a decrease of \$0.7 million from \$11.6 million in Q4 2019. The net impact of changes in fair value of biological assets and inventories for Q4 2020 was (\$0.4) million, down from \$3.9 million for Q4 2019, reflecting a year-over-year decrease of \$4.3 million.

YE December 2020 gross profit after adjusting for changes in the fair value of biological assets and inventories was \$59.0 million, up from \$58.4 million for YE December 2019, reflecting a year-over-year increase of \$0.6 million. The net impact of changes in fair value of biological assets and inventories for YE December 2020 was \$12.3 million, down from \$17.7 million for YE December 2019, reflecting a year-over-year decrease of \$5.4 million.

Total Operating Expense

The following is a summary of the Company's operating expenses derived from the consolidated financial statements of the Company for the three months ended December 31, 2020 and September 30, 2020:

(\$ thousands)	Three Months Ended	
	Dec 31, 2020	Sep 30, 2020
Share-based compensation	\$ 817	\$ 1,456
Depreciation and amortization	4,356	4,599
Wages and benefits	4,101	2,974
Professional fees	2,801	1,764
Business acquisition expense	-	-
Rent	283	212
Insurance	567	586
Advertising and marketing	100	82
Travel	26	40
General and administrative	2,576	2,602
Derecognition and impairment loss	34,076	138
Total Operating Expense	\$ 49,703	\$ 14,453

Total operating expense for Q4 2020 was \$49.7 million, an increase of \$35.3 million from \$14.5 million in Q3 2020. Increases in operating expense from Q3 2020 to Q4 2020 were primarily in non-cash derecognition and impairment loss which increased \$33.9 million. The increased loss was primarily caused by \$15.7 million in impairment loss on goodwill at Jupiter as a result of the Company's annual goodwill impairment testing wherein the carrying amount of Jupiter exceeded its estimated recoverable amount. This was mainly due to a higher discount rate used in the recoverable amount calculation compared to the prior year as a result of increased company specific risk evidenced by Jupiter's missed 2020 forecast, primarily driven by the vape crisis which saw multi-state bans on vaporizers beginning in Q3 2019 and extending into early 2020. Further driving the increased derecognition and impairment loss was \$6.0 million in impairment loss on intangible assets and goodwill at Baker related to the discontinuation of the Company's technology and distribution segment as the Company focuses on cash flow positive businesses, \$5.0 million in derecognition loss on fixed assets at the Company's British Columbia cannabis facility due to the Company's decision not to pursue licensure and expansion of the facility, \$4.6 million in derecognition loss on fixed assets at the Company's Massachusetts cannabis facility related to the disposal of unoccupied modular grow rooms in order to accelerate issuance of its final occupancy permit for the remainder of the facility, and \$2.5 million derecognition loss on intangible assets related to a management agreement. Further contributing to the increased operating expense quarter-over-quarter were increased expenses in professional fees related to legal expenses and in wages & benefits driven by year-end bonus adjustments.

Excluding non-cash stock compensation expense, non-cash sales, general and administrative ("SG&A") related depreciation and amortization expense, non-cash derecognition and impairment loss, and certain one-time non-cash bad debt expense within general and administrative expense, total operating expense for Q4 2020 was \$8.3 million, flat compared to \$8.3 million in Q3 2020.

The following is a summary of the Company's operating expenses derived from the consolidated financial statements of the Company for the three months and years ended December 31, 2020 and 2019:

(\$ thousands)	Three Months Ended		Year Ended	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Share-based compensation	\$ 817	\$ 2,914	\$ 4,200	\$ 75,628
Depreciation and amortization	4,356	3,073	18,516	22,963
Wages and benefits	4,101	3,741	12,927	19,097
Professional fees	2,801	116	10,074	10,506
Business acquisition expense	-	1,020	-	2,440
Rent	283	214	606	748
Insurance	567	759	2,323	2,792
Advertising and marketing	100	372	611	1,927
Travel	26	213	228	1,535
General and administrative	2,576	3,631	9,853	10,158
Derecognition and impairment loss	34,076	22,560	34,214	22,560
Total Operating Expense	\$ 49,703	\$ 38,613	\$ 93,552	\$ 170,354

Total operating expense for Q4 2020 was \$49.7 million, up from \$38.6 million for Q4 2019, reflecting a year-over-year increase of \$11.1 million or 28.7%. The year-over-year increase in total operating expense was primarily driven by increases in derecognition and impairment loss, in professional fees related to legal expenses and in depreciation and amortization related to the Q4 2019 reclassification of certain computer software in property, plant and equipment ("PP&E") to intangible assets. These increases were partially offset by decreases in general and administrative expense driven primarily by the Company's focus on cost control, in non-cash stock compensation expense related to employee option grants, and in business acquisition expense due to a decrease in activity related to mergers and acquisitions.

Excluding non-cash stock compensation expense, non-cash SG&A related depreciation and amortization expense, non-cash derecognition and impairment loss, and certain one-time non-cash bad debt expense within general and administrative expense, total operating expense was \$8.3 million in Q4 2020, down from \$10.1 million in Q4 2019 representing a year-over-year decrease of \$1.8 million or 17.7%.

YE December 2020 total operating expense was \$93.6 million, down from \$170.4 million for YE December 2019, reflecting a decrease of \$76.8 million or 45.1%. The total operating expense for YE December 2019 was primarily driven by non-cash stock compensation expense of \$75.6 million, which was \$4.2 million for YE December 2020, a decrease of \$71.4 million year-over-year. Further contributing to the decrease in total operating expense was a \$4.4 million decrease in non-cash SG&A related depreciation and amortization, which decreased from \$23.0 million for YE December 2019 to \$18.5 million for YE December 2020, primarily related to the derecognition and impairment of certain assets in Q4 2019. These decreases were partially offset by an increase in non-cash derecognition and impairment loss which increased \$11.7 million year-over-year.

Excluding non-cash stock compensation expense, non-cash SG&A related depreciation and amortization expense, non-cash derecognition and impairment loss, and certain one-time non-cash bad debt expense within general and administrative expense, total operating expense was \$34.5 million for YE December 2020, a decrease of \$14.8 million or 30.0% from \$49.2 million for YE December 2019. The decrease in total operating expense, excluding non-cash stock compensation expense, non-cash SG&A related depreciation and amortization expense, non-

cash derecognition and impairment loss, and non-cash one time bad debt expense, was primarily driven by decreases in wages and benefits expense related to reductions in workforce, a decrease in business acquisition expense driven by a decrease in activity related to mergers and acquisitions, and decreases in other operating expenses related to the Company's COVID-19 driven spending restrictions.

Total Other Income (Expense)

Other income in Q4 2020 was (\$15.8) million, down from (\$2.5) million in Q3 2020 representing a quarter-over-quarter decrease in other income of \$13.4 million. This decrease was largely driven by an increase in loan losses primarily related to the assignment of the Ermont Note discussed in "*Key Developments Subsequent to Q4 2020*". This increase was partially offset by decreased finance expense.

Other income for Q4 2020 decreased \$6.6 million year-over-year, from (\$9.2) million in Q4 2019 to (\$15.8) million. The decrease in other income was primarily driven by an increase in the loss on loans. This was partially offset by a decrease in finance expense related to interest expense for the note financing the Company repaid in Q4 2019.

Other income for YE December 2020 was (\$22.6) million, down from (\$13.2) million for YE December 2019, or a decrease of \$9.3 million. The year-over-year decrease in other income was primarily driven by an increase in loan losses. Further, there was no recovery of impaired inventory in YE December 2020 compared to YE December 2019. Partially offsetting these factors, there was a decrease in finance expense year-over-year related to interest expense for the note financing the Company repaid in Q4 2019.

Net Income (Loss)

The Company recorded a net loss from continuing operations of (\$45.4) million in Q4 2020, compared to a net loss from continuing operations of (\$1.7) million in Q3 2020, which reflects a quarter-over-quarter decrease in net income of \$43.6 million. The decrease in net income in Q4 2020 was largely associated with the \$34.1 million non-cash derecognition and impairment loss as well as the increase in loan losses.

The Company recorded a net loss from continuing operations of (\$45.4) million for Q4 2020, compared to a net loss of (\$36.1) million for Q4 2019, which represents a year-over-year decrease in net income of \$13.7 million. The decrease in net income was primarily driven by increased loan loss, and an increase in derecognition and impairment loss.

The Company recorded a net loss from continuing operations of (\$52.1) million for YE December 2020, down from (\$121.9) million for YE December 2019, reflecting a year-over-year increase in net income from continuing operations of \$69.8 million. The year-over-year increase in net income is primarily attributable to a decrease in non-cash stock compensation expense which was \$75.6 million in YE December 2019, compared to \$4.2 million in YE December 2020 reflecting a decrease of \$71.4 million. Further contributing to the increase in net income year-over-year were decreases in other operating expenses and in finance expense. This was partially offset by an increase in the non-cash derecognition and impairment loss as well as the increase in loan losses.

Reconciliation of Net Income (Loss) to Non-IFRS Measures

The table below reconciles Net Income (Loss) to EBITDA and Adjusted EBITDA for the three months and year ended December 31, 2020, the three months ended September 30, 2020, the three months and year ended December 31, 2019 and the year ended December 31, 2018:

(\$ thousands)	Three Months Ended			Year Ended		
	Dec 31, 2020	Sep 30, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Net (Loss) from Continuing Operations	\$ (45,364)	\$ (1,724)	\$ (31,621)	\$ (52,107)	\$ (121,927)	\$ (550,119)
Add (Deduct) Impact of:						
Interest (Income)	(1,595)	(767)	(843)	(3,835)	(3,280)	(2,199)
Finance Expense	1,847	2,981	4,398	10,336	13,463	-
Income Tax Expense (Recovery)	(9,313)	3,639	(4,582)	(5,043)	(3,275)	48
Depreciation and Amortization	4,813	5,544	4,767	21,617	25,997	649
Total Adjustments	(4,248)	11,397	3,740	23,075	32,905	(1,502)
EBITDA (Non-IFRS)	\$ (49,612)	\$ 9,673	\$ (27,881)	\$ (29,032)	\$ (89,022)	\$ (551,621)
Add (Deduct) Impact of:						
Stock Compensation Expense	817	1,456	2,914	4,200	75,628	28,967
Business Acquisition Expense	-	-	1,020	-	2,440	4,047
Debt Issuance Costs	-	-	540	-	209	-
Severance	-	-	1,026	279	1,204	-
Foreign Exchange (Gain) Loss	-	-	-	-	(76)	107
(Gain) Loss on Sale of Assets	(32)	102	598	70	610	-
Lease Restructuring Costs	-	-	-	280	-	-
Legal Settlement	275	-	-	275	-	-
Unrealized (Gain) Loss on Investment in Equity Security	23	301	-	337	-	-
Loss on Loan Receivable	16,416	-	4,689	16,416	4,689	-
One time bad debt expense	2,169	-	-	2,169	-	-
Impairment (Recovery) of Inventory	-	-	-	-	(1,418)	1,418
Derecognition and impairment loss	34,076	138	22,560	34,214	22,560	494,448
Unrealized (Gain) on Changes in FV of Bio. Assets	(13,650)	(14,477)	(9,250)	(47,298)	(37,459)	-
FV Changes in Bio. Assets Included in Inventory Sold	14,063	7,870	5,348	35,014	19,790	-
Total Adjustments	54,157	(4,610)	29,445	45,956	88,177	528,987
Adjusted EBITDA (Non-IFRS)	\$ 4,545	\$ 5,063	\$ 1,564	\$ 16,924	\$ (845)	\$ (22,634)

Q4 2020 Financial Condition Including Liquidity and Capital Resources

The Company closely monitors and manages its capital resources to assess the liquidity required to fund fixed asset capital expenditures and operations.

As of December 31, 2020 and December 31, 2019, the Company had total current assets of \$101.9 million and \$94.7 million, respectively, which represents an increase of \$7.2 million. The increase in total current assets from December 31, 2019 to December 31, 2020 is primarily related to increases in cash and cash equivalents, inventories, biological assets and advances for acquisition targets partially offset by decreases in trade receivables. Additionally, as of December 31, 2020 and December 31, 2019, the Company had total current liabilities of \$44.5 million and \$50.4 million, respectively, which represents a decrease of \$5.9 million. The decrease in total current liabilities from December 31, 2019 to December 31, 2020 is primarily related to decreases in accounts payable and accrued liabilities and income taxes payable, partially offset by increases in deferred revenue and current portion of notes payable. As a result, the Company had working capital of \$57.4 million and \$44.3 million as of December 31, 2020 and December 31, 2019, respectively, which represents an increase in working capital of \$13.1 million.

The Company expects that cash on hand and cash flows from operations, along with private and/or public financing, will be adequate to meet the Company's capital requirements and operational needs for the next 12 months.

Cash

As of December 31, 2020 and December 31, 2019, the Company had cash and cash equivalents of \$7.4 million and \$2.6 million, respectively, which reflects an increase of \$4.8 million. This increase was primarily driven by the conversion of Jupiter inventory.

Inventories

As of December 31, 2020 and December 31, 2019, the Company had inventories of \$52.6 million and \$48.2 million, respectively, which reflects an increase of \$4.5 million. The increase in inventories from December 31, 2019 to December 31, 2020 was primarily attributable to increased work in process and finished goods in the cannabis segment driven by harvest yields and increased canopy, partially offset by inventory conversion at Jupiter. Additionally, certain inventory assets were reclassified in Q4 2020 from Finished Goods to Work in Process. The Company's inventory assets as of December 31, 2020 and December 31, 2019 consisted of the following:

(\$ thousands)	Dec 31, 2020	Dec 31, 2019
Work in Process - Cannabis and Cannabis Oils	\$ 24,781	\$ 11,120
Finished Goods - Harvested Cannabis	872	6,449
Finished Goods - Cannabis Oils	5,090	3,160
Finished Goods - Cartridges & Power Supplies	20,545	26,157
Materials	580	543
Supplies and Accessories	766	740
Total Inventory	\$ 52,634	\$ 48,169

Biological Assets

As of December 31, 2020 and December 31, 2019, the Company had biological assets of \$11.2 million and \$8.6 million, respectively, which reflects an increase of \$2.6 million. The changes in the carrying value of biological assets as of December 31, 2020 and December 31, 2019 are as follows:

(\$ thousands)	Dec 31, 2020	Dec 31, 2019
Balance, beginning of period	\$ 8,580	\$ 1,868
Biological assets acquired in business acquisitions	-	645
Net increase in fair value less costs to sell due to biological transformation	47,298	37,459
Production costs capitalized	9,697	8,974
Balance, prior to inventory transfer	\$ 65,575	\$ 48,946
Transferred to inventory upon harvest	(54,374)	(40,366)
Balance, end of period	\$ 11,201	\$ 8,580

Property, Plant and Equipment

As of December 31, 2020 and December 31, 2019, the Company had net PP&E of \$66.8 million and \$80.6 million, respectively, which reflects a decrease of \$13.8 million. The decrease in net PP&E from December 31, 2019 to December 31, 2020 is primarily attributable to the derecognition of certain fixed assets in Q4 2020 as well as the depreciation of assets during YE December 2020. The PP&E balance as of December 31, 2019 and December 31, 2020 consisted of the following:

(\$ thousands)	Balance 12/31/2019	Business acquisitions	Additions	Disposals/ Reclasses/ Impairments	Loss on Derecognition	Discontinued Operations	Balance 12/31/2020
Land	\$ 169	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 169
Land Improvements	438	-	22	-	-	-	460
Machinery and Equipment	8,752	-	1,240	1,783	(322)	(85)	11,368
Furniture and Fixtures	1,095	-	89	(73)	-	(162)	949
Buildings	6,287	-	304	-	-	-	6,591
Greenhouse-agricultural Structure	12,494	-	-	-	(4,302)	-	8,192
Leasehold Improvements	45,802	-	95	(6,008)	-	(227)	39,662
Construction in Progress	8,781	-	-	3,630	(5,475)	-	6,936
Autos and Trucks	554	-	-	(204)	-	(158)	192
Property not in Service	1,481	-	197	35	-	-	1,713
Total PP&E	85,853	-	1,947	(837)	(10,099)	(632)	76,232
Less: Accumulated Depreciation	(5,277)	-	(4,466)	(28)	-	334	(9,437)
Total PP&E, net	\$ 80,576	\$ -	\$ (2,519)	\$ (865)	\$ (10,099)	\$ (298)	\$ 66,795

Cash Flows

For the year ended December 31, 2020, cash was provided by (used in):

- Operating activities: \$9.7 million. The cash provided by operating activities for YE December 2020 includes a cash gain from continuing operations of \$14.4 million, which excludes non-cash items from net loss such as stock compensation expense, depreciation and amortization expense and the impact of changes in the fair value of biological assets and inventory. Cash provided by continuing operating activities for YE December 2020 also reflects a \$2.3 million change in cash used in working capital items, net of effects of acquisitions during the period. Of the \$9.7 million in net cash provided by operating activities for YE December 2020, \$16.7 million was provided by continuing operations and (\$7.0) million was used in discontinued operations.
- Investing activities: (\$2.5) million. The cash used in investing activities for YE December 2020 primarily consists of the purchase of PP&E. Of the cash used in investing activities, (\$2.6) million was used in continuing operations and \$0.1 million was provided by discontinued operations.
- Financing activities: (\$2.9) million. The cash used in financing activities for YE December 2020 primarily consists of (\$1.8) million in payments on lease obligations. Of the cash used in financing activities, (\$2.3) million was used in continuing operations and (\$0.6) was used in discontinued operations.

For the year ended December 31, 2020, the net increase (decrease) in cash was \$4.8 million.

Outstanding Shares

The Company's authorized capital consists of an unlimited number of common shares ("**Common Shares**") and an unlimited number of compressed shares ("**Compressed Shares**"). The following sets out the number of outstanding Common Shares, options for Common Shares, Common Share purchase warrants and restricted stock units of the Company and limited partnership units of Jimmy Jang, L.P. ("**LP Units**") as at December 31, 2020 and January 31, 2021:

	<u>Dec 31, 2020</u>	<u>Jan 31, 2021</u>
Common Shares	323,261,294	323,261,294
Options	19,141,188	19,047,456
Warrants	74,562,211	74,553,191
Restricted Stock Units	3,499,104	3,499,104
LP Units	43,921,379	43,921,379
Fully Diluted Common Shares	464,385,176	464,282,424

Contractual Obligations**Lease Liabilities and Obligations**

The following table presents the contractual undiscounted cash flows for lease obligations at December 31, 2020:

(\$ thousands)	
As of December 31, 2020	Amount
One to five years	\$ 12,898
More than five years	4,264
Total undiscounted lease liabilities at December 31, 2020	\$ 17,162

Lease liabilities included in the consolidated statement of financial position at December 31, 2020:

(\$ thousands)	
As of December 31, 2020	Amount
Current	\$ 1,615
Non-current	11,647
Total	\$ 13,262

Interest expense on lease liabilities for the years ended December 31, 2020 and 2019 was \$1.6 million and \$2.0 million, respectively. All extension options that are reasonably expected to be exercised have been included in the measurement of lease liabilities.

Commitments and Contingencies**Guarantees**

A subsidiary is a guarantor in the lease agreement of one of the Massachusetts dispensaries to which the Company has extended a loan. As such, the Company may be liable for the future minimum rental payments under this lease if the dispensary defaults as follows:

(\$ thousands)	
Year ending December 31,	Amount
2021	\$ 414
2022	434
2023	450
2024	463
2025 and thereafter	1,997
Total	\$ 3,758

Off-Balance Sheet Arrangements

The Company does not maintain any off-balance sheet arrangements.

Related Party Transactions

A related party is a person or an entity that is related to the reporting entity if that person or entity has control, joint control or significant influence over the entity or is a member of key management personnel.

Loans from Related Parties

The Company has a payable of \$20.2 million as of December 31, 2020 and 2019 to the Company's CEO and Board member, Mark Scatterday, for his portion of the amounts payable in connection with the Company's acquisition of Jupiter. \$17.7 million of the total amount is included within notes payable and the remaining within accounts payable and accrued liabilities, on the consolidated statements of financial position.

As of December 31, 2020 and 2019, the Company had payables of \$1.6 million and \$1.0 million, respectively, to Mark Scatterday, the Company's CEO and Board member, and Corner Health, LLC, an entity partially owned and managed by Jane Batzofin, a Board member, related to their portion of the amounts payable in connection with the senior notes described in note 16 of the accompanying Financial Statements.

Loans to Related Parties

The Company has a receivable of \$7.1 million as of December 31, 2020 from Slam Dunk, LLC, a Nevada limited liability corporation controlled by Tim Conder, a Board member related to the Blackbird Sale as set forth above and described in "*Blackbird Note Receivable*" of note 13 in the accompanying Financial Statements.

Key Management Compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the Company, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and the Board.

Compensation provided to key management is included in payroll and related benefits and share-based payments are included in stock compensation expense in the consolidated statement of operations. Compensation provided to key management was as follows for the years ended December 31, 2020 and 2019:

(\$ thousands)	Year Ended	
	Dec 31, 2020	Dec 31, 2019
Management Compensation	\$ 2,556	\$ 2,468
Share-Based Payments	2,658	73,856

New Accounting Standards Applied

Amendment to IFRS 3: Definition of a Business

In October 2018, the International Accounting Standard Board (“**IASB**”) issued “Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020, however early application is permitted. The Company has adopted the IFRS 3 amendment as of January 1, 2020, with no impact on its consolidated financial statements.

IAS 1: Presentation of Financial Statements & IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors

In October 2018, the IASB issued “Definition of Material”, an amendment to IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, to clarify the definition of material and to align the definition used in the Conceptual Framework and the standards themselves. Materiality is defined as “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” This amendment will be effective for the annual period beginning January 1, 2020. The Company has adopted IAS 1 and IAS 8 as of January 1, 2020, with no impact on its consolidated financial statements.

Financial and Capital Risk Management

The Company examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include market risk, interest rate risk, liquidity risk, currency risk, and credit risk. Where significant, these risks are reviewed and monitored by the Board.

The Board has overall responsibility for the determination of the Company’s risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company’s competitiveness and flexibility.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company’s approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As interest on the cash held with financial institutions is negligible and the Company does not have any variable interest rate instruments, the Company considers interest rate risk to be immaterial.

Currency Risk

The operating results and financial position of the Company are reported in U.S. dollars. Some of the Company's financial transactions are denominated in currencies other than the U.S. dollar. The results of the Company's operations are subject to currency transaction and translation risks. The Company's exposure to currency risk is minimal.

For the years ended December 31, 2020 and 2019, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Credit Risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables, advances for acquisition targets and loans receivable. The carrying amounts for these financial assets represent their maximum credit exposure to the Company.

- *Trade Receivables*

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Accounts receivable related to online sales are held in reputable merchant accounts and are typically received within a short period of time.

As at December 31, 2020 and December 31, 2019, the Company was not materially exposed to any significant credit risk related to counterparty performance of outstanding trade receivables.

- *Loans Receivable*

The Company manages its exposure to credit risk arising from loans receivable by obtaining collateral in the form of guarantees and security interest in the underlying assets of the counterparty, including intangible assets such as cannabis licenses, which would allow the Company to foreclose on the loans or force a sale of the assets in the event of default by the counterparty.

At each reporting date, the Company assesses whether loans receivable are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a loan is credit impaired is based on observable data such as significant financial difficulty of the debtor and a breach of contract such as a default or being past due.

Expected credit losses ("**ECLs**") are measured by the Company on a probability-weighted basis based on historical experience with losses and forward-looking information, which includes considerations of ongoing legal and regulatory developments in the industry. Loss given default parameters utilized by the Company in estimating ECL generally reflect the assumed recovery rate from underlying collateral, with adjustments for time value of money and estimated costs for obtaining and selling the collateral. Given the repayment

profile and underlying terms of such loans, ECLs are generally estimated over the contractual term of the loan.

Cash and Cash Equivalents

Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. The Company maintains its cash accounts at various financial institution in the United States and Canada. Federal Deposit Insurance Corporation provides insurance of up to \$250 for cash accounts held in the banks in the United States. Canadian Deposit Insurance Corporation provides insurance of up to C\$100 for cash accounts held in the banks in Canada. From time to time, the Company's balances may exceed this limit. The Company has not experienced any losses on its cash deposits. Credit risk exposure is limited through maintaining cash with high-credit quality financial institutions and management considers this risk to be minimal for all cash assets based on changes that are reasonable possible at each reporting period.

Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other shareholders.

The capital structure of the Company consists of items included in shareholders' equity and debt. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products, to fund operations and expansion activities. As of December 31, 2020, the Company is not subject to externally imposed capital requirements.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized in the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.

IFRS 9 introduced new requirements for the classification and measurement of financial assets. IFRS 9 required all recognized financial assets to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. IFRS 9 also amended the requirements around hedge accounting, and introduced a single, forward-looking expected loss impairment model.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible notes denominated in United States Dollar that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument

as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) fair value through profit or loss (“**FVTPL**”); (ii) fair value through other comprehensive income; and (iii) amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For financial assets and financial liabilities measured at fair value, gains or losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified. Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through other comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in the profit or loss.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are measured at amortized cost subsequent to initial recognition. All other financial assets including equity investments are measured at their fair values subsequent to initial recognition, with any changes taken through profit or loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset at the reporting date with the risk of default at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. Evidence of increased credit risk may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit ratings, the existence of third-party insurance, and forward-looking macroeconomic factors in the measurement of the expected credit losses associated with its financial assets carried at amortized cost. The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

IFRS 9 Classification and Measurement

The following table provides the financial instrument classifications for the Company's financial assets and liabilities.

Financial Instrument	IFRS 9	
	Classification	Measurement
Cash and cash equivalents	Amortized cost	Amortized cost
Trade receivables and others	Amortized cost	Amortized cost
Advances for acquisition targets	Amortized cost	Amortized cost
Due from related parties	Amortized cost	Amortized cost
Loan receivable in connection with the Blackbird sale (Note 4)	FVTPL	Fair value
Other loans receivable	Amortized cost	Amortized cost
Investments	FVTPL	Fair value
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost
Notes payable	Amortized cost	Amortized cost

Issuers with U.S. Cannabis-Related Assets

On February 8, 2018, the Canadian Securities Administrators revised their previously released Staff Notice 51-352 *Issuers with U.S. Marijuana-Related Activities* (the “**Staff Notice**”) 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 prospectus filings and other required disclosure documents in order to fairly present all material facts, risks and uncertainties about issuers with U.S. cannabis-related activities.

Such disclosure includes, but is not limited to: (i) a description of the nature of a reporting issuer’s involvement in the U.S. cannabis industry; (ii) an explanation that cannabis is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer’s U.S. cannabis-related activities are conducted in a manner consistent with U.S. federal enforcement priorities; and (iv) a discussion of the reporting issuer’s ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. cannabis industry, or deemed to have “ancillary industry involvement”, all as further described in the Staff Notice.

As a result of the Company’s existing operations and acquisitions in the United States, TILT is subject to the Staff Notice and accordingly provides the following disclosure.

Regulatory Overview

In accordance with the Staff Notice, below is a discussion of the federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved through its subsidiaries. The Company or its subsidiaries are, recently were, or are expected to be directly engaged in the manufacture, possession, use, sale, or distribution of cannabis in the States of Massachusetts, California, Pennsylvania and Nevada. The Company is in compliance with the applicable state regulatory framework and licensing requirements for each of the States of Massachusetts, California, Pennsylvania and Nevada.

The Company or its subsidiaries are or are expected to be indirectly engaged in the manufacture, possession, use, sale, or distribution of cannabis in the medicinal cannabis marketplace in the State of Ohio. The Company is not aware of any non-compliance with any applicable licensing requirements or regulatory framework enacted by the State of Ohio.

The Company also has ancillary involvement in the marijuana industry through the products and services it provides to customers in the following States and United States Territories: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Indiana, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Puerto Rico, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Wisconsin and West Virginia. The Company is not aware of any non-compliance by its customers with any applicable licensing requirements or regulatory framework enacted by each of these respective States.

In accordance with the Staff Notice, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented and

amended to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. Any non-compliance, citations or notices of violation which may have an impact on the Company's licenses, business activities or operations will be promptly disclosed by the Company.

Legal Advice in Accordance with the Staff Notice

Legal advice has been obtained by the Company regarding applicable U.S. federal and state law.

Regulation of Cannabis in the United States Federally

The United States federal government regulates drugs through the Controlled Substances Act (21 U.S.C. § 811) (the "**CSA**"). Pursuant to the CSA, cannabis is classified as a Schedule I controlled substance. A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, lacks safety for use under medical supervision and has a high potential for abuse. The Department of Justice defines Schedule I drugs, substances or chemicals as "drugs with no currently accepted medical use and a high potential for abuse."

The United States Food and Drug Administration has not approved cannabis as a safe and effective drug for any use

Canada has federal legislation which uniformly governs the cultivation, processing, distribution, sale and possession of both medical and recreational cannabis under the *Cannabis Act*, as well as various provincial and territorial regulatory frameworks that further govern the distribution, sale and consumption of recreational cannabis within the applicable province or territory. In contrast, cannabis is only permissively regulated at the state level in the United States.

State laws in the United States regulating cannabis are in direct conflict with the CSA, which prohibits cannabis use and possession. Although certain states and territories of the U.S. authorize medical and/or recreational cannabis cultivation, manufacturing, production, distribution, and sales by licensed or registered entities, under U.S. federal law, the cultivation, manufacture, distribution, possession, use, and transfer of cannabis and any related drug paraphernalia, unless specifically exempt, is illegal and any such acts are criminal acts under the CSA. Although the Company's activities are compliant with applicable United States state law, strict compliance with state laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

The risk of federal enforcement and other risks associated with the Company's business are described in "*Risk Factors and Uncertainties*".

Company Compliance Program

The Company is classified as having direct, indirect and ancillary involvement in the U.S. marijuana industry and is in material compliance with applicable licensing requirements and the regulatory framework enacted by each U.S. state in which it operates. The Company is not subject to any citations or notices of violation with applicable licensing requirements and the regulatory framework enacted by each applicable U.S. state which may have an impact on its licenses, business activities or operations.

As at December 1, 2020, the Company's General Counsel or any other individual appointed by him oversees, maintains, and implements the Company's compliance program and personnel. In addition to the Company's internal legal and compliance departments, the Company has state and local regulatory/compliance counsel engaged in every jurisdiction in which it operates.

The Company's General Counsel or any other individual appointed by him oversees compliance training for all employees, such training includes, but is not limited to, on the following topics:

- compliance with state and local laws;
- safe cannabis use;
- dispensing procedures;
- security and safety policies and procedures;
- inventory control;
- Track & Trace training sessions;
- quality control;
- transportation procedures; and
- extensive ingredient and product testing, often beyond that required by law to assure product safety and accuracy.

The Company's compliance program emphasizes security and inventory control to ensure strict monitoring of cannabis and inventory from delivery by a licensed distributor to sale or disposal. Only authorized and properly trained employees are allowed to access the Company's computerized seed-to-sale system.

The Company's General Counsel or anyone appointed by him monitors all compliance notifications from the regulators and inspectors in each market, timely resolving any issues identified. The Company keeps records of all compliance notifications received from the state regulators or inspectors and how and when the issue was resolved.

Further, the Company has created comprehensive standard operating procedures that include detailed descriptions and instructions for receiving shipments of inventory, inventory tracking, recordkeeping and record retention practices related to inventory, as well as procedures for performing inventory reconciliation and ensuring the accuracy of inventory tracking and recordkeeping. The Company maintains accurate records of its inventory at all licensed facilities. Adherence to the Company's standard operating procedures is mandatory and ensures that the

Company's operations are compliant with the applicable state and local laws, regulations, ordinances, licenses, rules and other requirements. The Company ensures adherence to standard operating procedures by regularly conducting internal inspections and ensures that any issues identified are resolved quickly and thoroughly.

In January 2018, United States Attorney General, Jeff Sessions rescinded the Cole Memorandum.¹ The rescission of the Cole Memorandum and other Obama-era prosecutorial guidance did not create a change in federal law, as the Cole Memorandum was never legally binding; however, the revocation removed the DOJ's guidance to U.S. Attorneys that state-regulated cannabis industries operating substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority. As an industry best practice, despite the rescission of the Cole Memorandum, the Company continues to do the following to ensure compliance with the guidance provided by the Cole Memorandum:

- Ensure the operations of its subsidiaries and business partners are compliant with all licensing requirements that are set forth with regards to cannabis operation by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions. To this end, the Company retains appropriately experienced legal counsel to conduct the necessary due diligence to ensure compliance of such operations with all applicable laws and regulations;
- The activities relating to cannabis business adhere to the scope of the licensing obtained – for example, in the states where only medical cannabis is permitted, the products are only sold to patients who hold the necessary documentation to permit the possession of the cannabis; and in the states where cannabis is permitted for adult recreational use, the products are only sold to individuals who meet the requisite age requirements;
- The Company only works through licensed operators, which must pass a range of requirements, adhere to strict business practice standards and be subjected to strict regulatory oversight whereby sufficient checks and balances ensure that no revenue is distributed to criminal enterprises, gangs and cartels; and
- The Company conducts reviews of products and product packaging to ensure that the products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

On November 7, 2018, Jeff Sessions resigned from his position as Attorney General. The next Attorney General, William Barr, stated that he does not intend “go after” parties who are involved in the cannabis business and are compliant with state law in reliance on the Cole Memorandum; however, such statements are not official declarations or policies of the DOJ and are not binding on the DOJ, on any United States Attorney or on the United States federal courts, and substantial uncertainty regarding United States federal enforcement remains. After Joe Biden's election as President in November 2020, it is also unclear whether, and to what extent, the risk of federal enforcement will be altered by President Joe Biden's administration and his newly appointed Attorney General, Merrick Garland. Regardless, the federal government of the United States has always reserved the right to enforce federal law regarding the sale and disbursement of medical or recreational marijuana, even if state law sanctioned such sale and disbursement. Although the

¹ U.S. Dept. of Justice. (2013). *Memorandum for all United States Attorneys re: Guidance Regarding Marijuana Enforcement*. Washington, DC: US Government Printing Office. Retrieved from <https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf>.

rescission of the Cole Memorandum does not necessarily indicate that marijuana industry prosecutions are now affirmatively a priority for the DOJ, there can be no assurance that the United States federal government will not enforce such laws in the future.

In the absence of a uniform federal policy, as had been established by the Cole Memorandum, numerous United States Attorneys with state-legal marijuana programs within their jurisdictions have announced enforcement priorities for their respective offices. For instance, Andrew Lelling, United States Attorney for the District of Massachusetts through February 2021, stated that while his office would not immunize any businesses from federal prosecution, he anticipated focusing the office's marijuana enforcement efforts on: (1) overproduction; (2) targeted sales to minors; and (3) organized crime and interstate transportation of drug proceeds.² Other United States Attorneys provided less assurance, promising to enforce federal law, including the CSA in appropriate circumstances.

The Company will continue to monitor compliance on an ongoing basis in accordance with its compliance program and standard operating procedures. While the Company's operations are in full compliance with all applicable state laws, regulations and licensing requirements, such activities remain illegal under United States federal law. For the reasons described above and the risks further described in the *Risk Factors* section below, there are significant risks associated with the business of the Company. Readers are strongly encouraged to carefully read all of the risk factors contained in *Risk Factors*.

² U.S. Attorney's Office District of Massachusetts (2018). *Statement of U.S. Attorney Andrew Lelling Regarding the Legalization of Recreational Marijuana in Massachusetts*, available at <https://www.justice.gov/usao-ma/pr/statement-us-attorney-andrew-elling-regarding-legalization-recreational-marijuana>.

The Company's Balance Sheet and Operating Statement Exposure to U.S. Marijuana Related Activities

The following represents the portion of certain line items on the Company's consolidated financial statements that pertain to U.S. cannabis activity for the year ended December 31, 2020:

Balance Sheet line items	U.S. marijuana-related activities	
	Licensed ³	Non-Licensed ⁴
Cash and cash equivalents	41%	44%
Trade receivables and others	12%	88%
Inventories and biological assets	68%	32%
Other current assets	14%	32%
Property, plant and equipment	93%	2%
Intangible assets	16%	84%
Goodwill	29%	71%
Other assets	10%	90%
Accounts payable and accrued liabilities	12%	55%
Income taxes	35%	37%
Other current liabilities	10%	52%
Other long-term liabilities	12%	2%
Income Statement line items		
Revenue	27%	73%
Gross profit	54%	46%
Operating expenses	27%	40%
Total other expense (income)	35%	59%
Income tax expense	83%	55%

Readers are cautioned that the foregoing financial information, though extracted from the Company's financial systems that supports its annual financial statements, has not been audited in its presentation format and accordingly is not in compliance with IFRS based on consolidation principles.

³ Licensed activity includes those U.S. marijuana-related activities that have, in accordance with CSA Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities, "licensing requirements and the regulatory framework enacted by the applicable U.S. state."

⁴ Non-Licensed activity includes those U.S. marijuana-related activities that do not have, in accordance with CSA Staff Notice 51-352 (Revised) Issuers with U.S. Marijuana-Related Activities, "licensing requirements and the regulatory framework enacted by the applicable U.S. state."

Regulation of Cannabis at State Levels

Below is a summary of the licensing and regulatory framework in the markets where, as of December 31, 2020, the Company held licenses and had direct or indirect involvement with the U.S. cannabis industry, followed by outlines of the regulatory framework in each of the relevant states.

State	License Type held Directly and Indirectly by Company	Number of Licenses Allowed by Law in State	Number of Licenses/Applications arising out of Company Direct and Indirect Involvement
California	Adult-Use and Medicinal - Distributor Provisional License	Unlimited	3*
Massachusetts	Vertically Integrated Medical Marijuana Treatment Center	A Person or Entity Having Direct or Indirect Control may not hold more than three licenses of the same license type	3 Medical Marijuana Treatment Centers (1 open; 2 provisional licenses); 4 adult-use Marijuana Establishment license applications (1 cultivator application pending; 1 product manufacturer application pending; and 2 retailer applications pending)
Nevada	Marijuana Distributor	N/A	2 licenses*
Ohio	Processor (Medical)	A person, entity or subsidiary thereof may only hold a financial interest in or be an owner of one processor license	1 provisional license
Pennsylvania	Grower/ Processor (Medical)	A person may only be issued one grower/processor license	1 license

* These were the licenses held by the Company prior to the Blackbird Sale. The Company does not hold any licenses in these states after November 30, 2020.

California

In September 2015, the California legislature passed three bills, collectively known as the “Medical Cannabis Regulation and Safety Act” (“**MCRSA**”), which established a framework for licensing and regulating medical cannabis businesses. In 2016, California voters passed “The Adult Use of Marijuana Act” (“**AUMA**”), which legalized adult-use cannabis for adults 21 years and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combined elements of MCRSA and AUMA into

one state licensing structure under the “Medicinal and Adult-Use of Cannabis Regulation and Safety Act” (“**MAUCRSA**”).

Pursuant to MAUCRSA, three agencies were established for the purposes of regulating and licensing California cannabis operators (collectively, the “**Licensing Agencies**”): (1) CalCannabis, a division of the California Department of Food and Agriculture, to regulate and issue licenses to cannabis cultivators; (2) the Manufactured Cannabis Safety Branch (the “**MCSB**”), a division of the California Department of Public Health, to regulate and issue licenses to cannabis manufacturers; and (3) the Bureau of Cannabis Control, a division of the California Department of Consumer Affairs, to regulate and issue licenses to cannabis distributors, testing laboratories, retailers, and microbusinesses. Other departments and agencies of the State of California have regulatory oversight over cannabis businesses, but the Licensing Agencies play a primary role.

In the fall of 2018, the Licensing Agencies released their proposed permanent regulations, which, after going through the public comment period, were ultimately adopted in January 2019. These permanent regulations specified that licensees are prohibited from conducting commercial cannabis activities on behalf of, at the request of, or pursuant to a contract with any person who is not a licensed cannabis operator. Additionally, all financial interest owners are required to be identified to the applicable Licensing Agencies, which includes disclosure of entities having an interest through licensing and royalty arrangements, and this requirement has been in place even prior to the implementation of the permanent regulations. California has not set a limit on the number of state licenses that a single entity may hold, with certain limited exceptions. Similarly, vertical integration across multiple license types is allowed under MAUCRSA, with the exception of testing laboratory licensees, which entities may not hold any other license type.

The Company, through its wholly owned subsidiary Blackbird, prior to the November 30, 2020 Blackbird Sale, held three (3) Adult-Use and Medicinal - Distributor provisional licenses in the State of California and distributed cannabis product from brands and producers to dispensaries in California. Prior to the Blackbird Sale, the Company was in compliance with California state law and the related licensing framework. The Company does not have any cannabis operations in California after November 30, 2020.

Massachusetts

Massachusetts became the eighteenth state to legalize medical marijuana when voters passed a ballot measure in 2012. Adult-use (recreational) marijuana is legal in Massachusetts as of December 15, 2016, following the passage of a ballot initiative in November of that year. The CCC, a regulatory body created in 2016, oversees both the Medical Use of Marijuana Program and the Adult Use of Marijuana Program.

Under the Medical Use of Marijuana Program, a Medical Marijuana Treatment Center (“**MTC**”) is required to be vertically integrated, such that a single MTC license holder must cultivate, manufacture, and dispense medical marijuana and marijuana products to registered, qualifying patients and personal caregivers. Pursuant to the CCC’s regulations, no Person or Entity Having Direct or Indirect Control over the MTC’s operations may be granted or hold more than three (3) MTC Licenses.

Under the Adult Use of Marijuana Program, vertical integration is not required, and therefore multiple types of adult-use Marijuana Establishment (“**ME**”) licenses exist. The Marijuana Cultivator (Indoor or Outdoor), Marijuana Product Manufacturer, and Marijuana Retailer licenses cover the three (3) main operational license types (cultivation, manufacturing, and retail sales). ME Licenses, subject to certain ownership requirements, are also available for Independent

Testing Laboratories, Marijuana Research Facilities, Marijuana Transporters, Craft Marijuana Cooperatives, Delivery-Only Licensees, Social Consumption Establishments (once authorized by municipalities and an application is released by the CCC), and Marijuana Microbusinesses. No Person or Entity Having Direct or Indirect Control over the ME's operations may be granted or hold more than three (3) licenses in a particular class of license, except as otherwise specified in 935 CMR 500.000. In addition, any Person or Entity Having Direct or Indirect Control, or Licensee, is limited to a total of 100,000 square feet of cultivation "canopy" distributed across no more than three (3) adult-use Marijuana Cultivator Licenses and three (3) MTC Licenses. Note that the CCC voted to amend its medical and adult-use marijuana regulations in November 2020, and the new regulations became effective on January 8, 2021.

The Company holds an operational vertically integrated MTC license and two (2) provisional MTC licenses. The Company, through its wholly owned subsidiary CAC, operates a medical cultivation, product manufacturing and dispensary operation in Taunton, Massachusetts. The Company has applied for adult-use ME licenses for the Taunton operations, and these license applications are currently pending. The Company has also received municipal authorization for medical cannabis sales at its retail MTC locations in Brockton and Cambridge. The Company is currently seeking final licensure from the CCC to commence medical cannabis retail sales in Brockton and Cambridge. Additionally, the Company has an adult-use license application under review by the CCC for its Brockton Retailer location. The Company is in compliance with Massachusetts state law and the related licensing framework.

Nevada

In 2013, the Nevada legislature passed SB374, codified as N.R.S. Chapter 453A, providing for state licensing of medical marijuana establishments. On November 8, 2016, Nevada voters passed Ballot Question 2, codified as N.R.S. Chapter 453D, allowing for the sale of marijuana for adult use starting on July 1, 2017. On June 12, 2019, Assembly Bill 533 was signed into law. AB533 created the Cannabis Compliance Board ("**CCB**") replacing the Nevada Department of Taxation as the state's primary cannabis regulatory authority. AB533 repealed N.R.S. Chapters 453A and 453D and promulgated N.R.S. 678A, 678B, 678C, and 678D of the Nevada Revised Statutes, effective as of July 1, 2020. The administrative regulations (NAC 453A and 453D) are also repealed and replaced with the new Nevada Cannabis Compliance Regulations, or NCCR, effective as of August 5, 2020.

Under N.R.S. Chapters 678A through 678D, a cannabis establishment license may be obtained for medical or adult-use, or both, for the following activities: cultivation, production, dispensing, and laboratory testing. All cannabis establishments must apply to the CCB for licensing. Local jurisdictions are also allowed to establish municipal licensing requirements, in which case final CCB licensure is contingent on receipt of all necessary municipal licenses and approvals. Licenses are valid for a period of one (1) year and are subject to annual renewals after required fees are paid and the business remains in good standing.

In Nevada, cannabis establishment licensees must disclose to the CCB all facts pertaining to any interest in or to the licensee, any investment in the licensee, an exercise of a significant level of control over the licensee, or any participation in the profits of the licensee, by any person acting as agent or trustee or in any other representative capacity for or on behalf of another person, which includes a description of the reason for the transfer and any contract or other agreement describing the transaction. Management services or intellectual property licensing agreements are acceptable and generally require disclosure to the CCB.

The Company, through its wholly owned subsidiary Blackbird, prior to the November 30, 2020 Blackbird Sale, held two (2) Marijuana Distributor licenses in the State of Nevada and distributed

cannabis product from brands and producers to dispensaries in Nevada. Prior to the Blackbird Sale, the Company was in compliance with Nevada state law and the related licensing framework. The Company does not have any cannabis operations in Nevada after November 30, 2020.

Ohio

On June 8, 2016, former Ohio Governor John Kasich signed HB 523 into law, sanctioning the use of marijuana for limited medical purposes and establishing a commercial marijuana regulatory regime. Qualifying conditions for access to medical marijuana under the program include, but are not limited to, chronic and severe pain, post-traumatic stress disorder and cancer. Ohio's medical marijuana program is regulated by both the Ohio Department of Commerce ("**Department of Commerce**") and the Ohio Board of Pharmacy ("**Ohio Board**"). The Department of Commerce is responsible for licensing cultivators, processors, and testing laboratories, while the Ohio Board is responsible for registering patients and caregivers as well as licensing medical marijuana dispensaries. Final regulations governing the program, including applications for business licensure, the operation of commercial medical cannabis establishments, physician certifications and patient registration have been adopted.

Ohio's medical cannabis program allows businesses to be structured as for-profit entities and does not impose residency requirements for investment or ownership in a commercial cannabis license. Common ownership between cultivation, processing and dispensing licenses is permitted, but prohibited for cannabis testing licensees. However, no one entity or person may own, have a financial interest in or significantly influence or control the activities of more than one (1) cultivation, more than one (1) processing license, or more than five (5) dispensary licenses at any given time.

The Company is indirectly engaged in the manufacture, possession, use, sale, or distribution of cannabis products in the medicinal cannabis marketplace in the State of Ohio, via Standard Farms Ohio, a licensed processor to which TILT made a loan. The Company is not aware of any non-compliance with Ohio state law or the related licensing framework.

Pennsylvania

In April of 2016, Pennsylvania's Governor Tom Wolf signed the commonwealth's first medical marijuana bill into law. The medical program created a commercial system for a limited number of businesses and permits physicians to recommend cannabis for a limited number of qualifying conditions. The Pennsylvania Department of Health (the "**PA DOH**") regulates medical marijuana businesses in the commonwealth and issues two (2) types of primary licenses: a medical marijuana grower/processor license and a medical marijuana dispensary license. The PA DOH also issues a third type of license called a Clinical Registrant License. The Clinical Registrant license is a combination of a grower/processor license and a dispensary license that is limited to applicants who have established a partnership with an accredited medical school in Pennsylvania. Temporary regulations limit the number of Clinical Registrant Licenses to eight (8) and limiting each such licensee to only one (1) grower/processor license and one (1) dispensary license.

For licensing purposes, the PA DOH split the commonwealth into six (6) regions. The state limits the total number of medical marijuana organizations to twenty-five (25) grower/processor licenses and fifty (50) dispensary licenses commonwealth-wide. Each dispensary license is permitted to have up to three (3) dispensary sites for a total of one hundred fifty (150) potential dispensary locations throughout Pennsylvania. For each dispensary license, the locations must be within the region where the license was awarded. For medical marijuana grower/processor licenses, the location is limited to the region where the license was awarded, but distribution is permissible

across all regions. Residency is not required to operate a medical marijuana organization in Pennsylvania. Vertical integration is limited, as the PA DOH may not issue more than five (5) grower/processor businesses dispensary permits. In addition, a single entity may not hold more than one (1) grower/processor permit nor more than five (5) dispensary permits.

In Pennsylvania, the Company holds a medical marijuana grower/processor license through its wholly owned subsidiary, Standard Farms which operates 33,500 square feet of greenhouse. The Company is in compliance with Pennsylvania state law and the related licensing framework.

Risk Factors and Uncertainties

The following specific factors could materially adversely affect the Company. Some of the following factors are interrelated and, consequently, investors should treat such risk factors accordingly. These risks and uncertainties are not the only ones that could affect the Company and additional risks and uncertainties not currently known to the Company, or that it currently deems to be immaterial, may also impair the business, financial condition and results of operations of the Company. If any of the following risks or other risks occur, they could have a material adverse effect on the Company's business, financial condition and results of operations. There is no assurance that any risk management steps taken by the Company will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

Risks specifically related to the cannabis industry:***Cannabis continues to be a controlled substance under the United States Federal Controlled Substances Act***

The Company will be engaged in the manufacturing, management, packaging/labelling, advertising, sale, transportation, storage and disposal of cannabis and subject to laws and regulations relating to drugs, controlled substances, health and safety, the conduct of operations and the protection of the environment. Thirty-three states, the District of Columbia, Puerto Rico, the Northern Marijuana Islands, the U.S. Virgin Islands, and Guam have legalized medical cannabis in some form, although not all of those jurisdictions have fully implemented their legalization programs. Eleven of those states, the District of Columbia, the Northern Marijuana Islands and Guam have legalized cannabis for adult use, although not all of those jurisdictions have fully implemented their legalization programs. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the CSA (codified in 21 U.S.C.A. Section 812). Under United States federal law, a Schedule I controlled substance is considered 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 substance under medical supervision. Federal law generally prohibits commercial production and sale of all Schedule I controlled substances, and as such, cannabis-related activities, including without limitation, the importation, cultivation, manufacture, distribution, sale and possession of cannabis remain illegal under U.S. federal law. Because virtually all cannabis-related activities are illegal at the federal level, it is also illegal to aid or abet such activities or to conspire or attempt to engage in such activities. 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. The Company's involvement in such activities may result in federal civil and/or criminal prosecution, including, but not limited to, forfeiture of Company Assets.

An appropriations rider contained in various federal appropriations and spending bills since 2014 (formerly known as the 'Rohrabacher-Farr' Amendment); now known as the Joyce Amendment (the "Amendment") provides budgetary constraints on the federal government's ability to interfere with the implementation of state-based medical cannabis laws. The Ninth Circuit Court of Appeals and other courts have interpreted the language to mean that the Department of Justice ("DOJ") cannot prosecute medical cannabis operators complying strictly with state medical cannabis laws. The Amendment does not protect state-legal adult-use businesses, and the Justice Department maintains that it can still prosecute violations of the federal cannabis ban and continue cases already in the courts. If the Amendment expires

and is not renewed, federal prosecutors could prosecute even compliant medical cannabis operators for conduct within the five-year statute of limitations. On October 1, 2020 the Amendment was renewed through the signing of a stopgap spending bill, effective through December 11, 2020. Nonetheless, continued reauthorization of the Amendment is predicated on future political developments and cannot be guaranteed.

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 and penalties, including, but not limited to, disgorgement of profits, cessation of business activities, divestiture, or prison time. 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 and adult-use cannabis licenses in the U.S., its financial position, operations, profitability or liquidity. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation or defense 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.

Reputational risks to third parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. While the Company has other banking relationships and believes that the services can be procured from other institutions, the Company may in the future have difficulty establishing or maintaining bank accounts or other business relationships. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Risks associated with banking, financial transactions, and anti-money laundering laws and regulations

The Company will be subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including 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 U.S. and Canada. Since the cultivation, manufacture, distribution and sale 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 Bank Secrecy Act, among other applicable federal statutes. Banks or other financial institutions that provide cannabis businesses with financial services such as a checking account in violation of the *Bank Secrecy Act* could be criminally prosecuted for willful violations of money laundering statutes, in addition to being subject to other criminal, civil, and regulatory enforcement actions. Banks often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions in the U.S. The lack of banking and financial services presents unique and significant challenges to businesses in the cannabis industry. The potential lack of a secure place in which to deposit and store proceeds, the inability to pay creditors through the issuance of checks and the inability to secure traditional

forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services. 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.

As previously introduced, in February 2014, FinCEN issued the FinCEN Memorandum providing instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN Memorandum states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of the Bank Secrecy Act. It refers to supplementary guidance that former Deputy Attorney General James M. Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA. Although the FinCEN Memorandum remains in effect today, it is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memorandum. Overall, the DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state, including in states that have legalized the applicable conduct and the DOJ’s current enforcement priorities could change for any number of reasons. A change in the DOJ’s enforcement priorities could result in the DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted. If the Company does not have access to the U.S. banking system, its business and operations could be adversely affected.

Other potential violations of federal law resulting from cannabis-related activities include the Racketeer Influenced Corrupt Organizations Act (“**RICO**”). RICO is a federal statute providing criminal penalties in addition to a civil cause of action for acts performed as part of an ongoing criminal organization. Under RICO, it is unlawful for any person who has received income derived from a pattern of racketeering activity (which includes most felonious violations of the CSA), to use or invest any of that income in the acquisition of any interest, or the establishment or operation of, any enterprise which is engaged in interstate commerce. RICO also authorizes private parties whose properties or businesses are harmed by such patterns of racketeering activity to initiate a civil action against the individuals involved. Although RICO suits against the cannabis industry are rare, a few cannabis businesses have been subject to a civil RICO action. Defending such a case has proven extremely costly, and potentially fatal to a business’ operations.

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 our ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada, and subject the Company to civil and/or criminal penalties. Furthermore, while there are no current intentions to declare or pay dividends on the Company Common Shares or the Company Compressed Shares in the foreseeable future, in the event that a determination was made that the Company’s proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, we may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time. The Company could likewise be required to suspend or cease operations entirely.

Federal and state forfeiture laws

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, seizure of assets, disgorgement of profits, cessation of business activities or divestiture. As an entity that conducts business in the cannabis industry, the Company will be potentially subject to federal and state forfeiture laws (criminal and civil) that permit the government to seize the proceeds of criminal activity. Civil forfeiture laws could provide an alternative for the federal government or any state or local police force that wants to discourage residents from conducting transactions with cannabis related businesses but believes criminal liability is too difficult to prove beyond a reasonable doubt. Also, an individual can be required to forfeit property considered to be the proceeds of a crime even if the individual is not convicted of the crime, and the standard of proof in a civil forfeiture matter is lower than the standard in a criminal matter. Depending on the applicable law, whether federal or state, rather than having to establish liability beyond a reasonable doubt, the federal government or the state, as applicable, may be required to prove that the money or property at issue is proceeds of a crime only by either clear and convincing evidence or a mere preponderance of the evidence.

Members of the Company located in states where cannabis remains illegal may be at risk of prosecution under federal and/or state conspiracy, aiding and abetting, and money laundering statutes, and be at further risk of losing their investments or proceeds under forfeiture statutes. Many states remain fully able to take action to prevent the proceeds of cannabis businesses from entering their state. Because state legalization is relatively new, it remains to be seen whether these states would take such action and whether a court would approve it. Members and prospective members of the Company should be aware of these potentially relevant federal and state laws in considering whether to invest in the Company.

Risk of heightened scrutiny by regulatory authorities

For the reasons set forth above, intended operations of the Company (and currently of the constituents) in the United States, and any future operations or investments, 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 our ability to operate or invest in the United States or any other jurisdiction, in addition to those described herein.

Further to the indication by CDS Clearing and Depository Services Inc. (“**CDS**”), Canada’s central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets that it would refuse to settle trades for cannabis issuers that have investments in the U.S., the TMX Group, the owner and operator of CDS, subsequently issued a statement in August 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S., 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. In February 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (“**MOU**”) with The Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSX Venture Exchange. The 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 U.S. The 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 currently no CDS ban on the clearing of securities of issuers with cannabis-related activities in the U.S. 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 TILT stock to make and settle trades. In particular, TILT would become highly illiquid as until an alternative was implemented, investors would have no ability to affect a trade of securities through the facilities of the applicable stock exchange.

In the United States, many clearing houses for major broker-dealer firms have refused to handle securities or settle transactions of companies engaged in cannabis related business. This means that certain broker-dealers cannot accept for deposit or settle transactions in the securities of companies, which may inhibit the ability of investors to trade in our securities and could negatively affect the liquidity of our securities.

Any restrictions imposed by the CSE or other applicable exchange on the business of the Company and/or the potential delisting of the Common Shares from the CSE or other applicable exchange or regulatory agency would have a material adverse effect on the Company and on the ability of holders of Common Shares to make trades.

Negative impact of regulatory scrutiny on raising capital

The Company's business activities will rely on newly established and/or developing laws and regulations in multiple jurisdictions. 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 Authority or other applicable federal, state, or non-governmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or non-medical purposes in the U.S. 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, create a public trading market in the U.S. for securities of the Company or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in the Company.

Risk of regulatory or political change

The success of the Company's business strategy 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. At the federal level, it is unclear whether, and to what extent, the risk of federal enforcement will be altered by President Joe Biden's administration and his newly appointed Attorney General, Merrick Garland. To our knowledge, there are to date a total of 33 states and the District of Columbia, Puerto Rico and Guam that have legalized cannabis in some form and additional states have pending legislation regarding the same; however, 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 business, results of operations, financial condition or prospects.

Delays in enactment of new state or federal regulations could restrict the Company's ability to reach strategic growth targets and lower return on investor capital. The strategic growth strategy of the Company is reliant upon certain federal and state regulations being enacted to facilitate the legalization of medical and adult-use 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 detrimental. We are unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

Further, there is no guaranty 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. 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 applicable state laws are repealed or curtailed, the Company's business, results of operations, financial condition and prospects would be materially adversely affected. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of cannabis in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the cannabis industry. Federal actions against individuals or entities engaged in the cannabis industry or a repeal of applicable cannabis related legislation could adversely affect the Company and its business, results of operations, financial condition and prospects.

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 have a material adverse effect upon the Company's business, results of operations, financial condition or prospects.

The commercial, medical and adult-use cannabis industries are in their infancy and the Company anticipates such regulations will be subject to change as the jurisdictions in which the Company will carry on business matures. The Company has put in place a detailed compliance program which will oversee, maintain, and implement the compliance program and personnel. In addition to its legal and compliance departments, the Company also has local regulatory/compliance counsel engaged in every jurisdiction in which it operates. The Company's compliance program emphasizes security and inventory control to ensure strict monitoring of cannabis and inventory from delivery by a licensed distributor to sale or disposal. Additionally, the Company has created comprehensive standard operating procedures that include detailed descriptions and instructions for monitoring inventory at all stages of development and distribution. The Company will continue to monitor compliance on an ongoing basis in accordance with its compliance program, standard operating procedures, and any changes to regulation in the cannabis industry.

Overall, the medical and adult-use cannabis industry is subject to significant regulatory change at both the state and federal level. The inability of the Company to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

Uncertainty surrounding existing protection from U.S. federal prosecution

Pursuant to the Amendment, until September 2020, the DOJ is prohibited from expending any funds to prevent states from implementing their own medical cannabis laws. If the Amendment

or an equivalent thereof is not successfully included in the next or any subsequent federal omnibus spending bill, the protection which has been afforded thereby to U.S. medical cannabis businesses in the past would lapse, and such businesses would be subject to a higher risk of prosecution under federal law. Although unlikely, there is a possibility that all amendments may be banned from federal omnibus spending bills, and if this occurs and the substantive provisions of the Amendment are not included in the base federal omnibus spending bill or other law, these protections would lapse. 67.7% of the combined House of Representatives and the Senate represent states with medical cannabis laws enacted or in process.

Uncertainty with respect to geo-political disruptions

Boycotts, civil unrest and other geo-political disruptions could adversely affect the Company. These events may damage the Company's properties, deny the Company access to an adequate workforce, increase the cost of energy and other raw materials, temporarily or permanently close the Company's facilities, disrupt the production, supply and distribution of the Company's products and potentially disrupt information systems.

If significant tariffs or other restrictions are placed on goods imported into the United States from China or any related counter-measures are taken by China, our revenue and results of operations may be materially harmed. Between July and September 2018, the U.S. Trade Representative imposed additional duties, ranging from 10% to 25% on a variety of goods imported from China that will potentially be subjected to a 10% tariff until 2019, when the tariffs will increase to 25%. These tariffs apply primarily to our vaporizer and vaporizer accessory products, and as a result, the cost of our products may increase. In addition, any such additional tariffs may also make our products more expensive for consumers, which may reduce consumer demand. We may need to offset the financial impact by, among other things, moving our product manufacturing to other locations where feasible, modifying other business practices or raising prices. If we are not successful in offsetting the impact of any such tariffs, our revenue, gross margins, and operating results may be adversely affected.

In addition to tariffs, the COVID-19 pandemic may negatively impact the ability of suppliers in China to produce cannabis accessory products, including vaporizer and vaporizer accessories, and transport such products to the Company's production facilities in a timely and cost-effective manner. Alternative sources of supply and transport may not be available or financially feasible, which could impact product availability, increase the cost of the Company's products, make products more expensive for consumers, and result in reduced consumer demand.

Tax risk

Section 280E of the Internal Revenue Code, as amended (the "**Code**"), prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). Section 280E drastically increases federal taxes for cannabis businesses operating under state-sanctioned regulatory programs because they are required to pay taxes on their operating expenses and are barred from taking standard deductions available to most other businesses. As a result, an otherwise profitable business may in fact operate at a loss after taking into account its income tax expenses. The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly and the bulk of operating costs and general administrative costs are not permitted to be deducted.

The Company will be precluded from claiming certain deductions otherwise available to non-marijuana businesses. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Consequently, 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.

The Company, which is a Canadian corporation existing under the laws of the Province of British Columbia, generally would be classified as a non-United States Corporation under general rules of United States federal income taxation. Section 7874 of the Code, however, contains rules that can cause a non-United States Corporation to be taxed as a United States corporation ("**United States Corporation**") for United States federal income tax purposes. Under section 7874 of the Code, a corporation created or organized outside the United States. (i.e., a non-United States Corporation) will nevertheless be treated as a United States Corporation for United States federal income tax purposes (such treatment is referred to as an "Inversion") if each of the following three conditions are met (i) the non-United States Corporation acquires, directly or indirectly, or is treated as acquiring under applicable United States Treasury Regulations, substantially all of the assets held, directly or indirectly, by a United States Corporation, (ii) after the acquisition, the former stockholders of the acquired United States Corporation hold at least 80% (by vote or value) of the shares of the non-United States Corporation by reason of holding shares of the United States acquired Corporation, and (iii) after the acquisition, the non-United States Corporation's expanded affiliated group does not have substantial business activities in the non- United States Corporation's country of organization or incorporation when compared to the expanded affiliated group's total business activities. For this purpose, "expanded affiliated group" means a group of corporations where (i) the non-United States corporation owns stock representing more than 50% of the vote and value of at least one member of the expanded affiliated group, and (ii) stock representing more than 50% of the vote and value of each member is owned by other members of the group. The definition of an "expanded affiliated group" includes partnerships where one or more members of the expanded affiliated group own more than 50% (by vote and value) of the interests of the partnership. The Company intends to be treated as a United States Corporation for United States federal income tax purposes under section 7874 of the Code and is expected to be subject to United States federal income tax on its worldwide income. However, for Canadian tax purposes, the Company is expected, regardless of any application of section 7874 of the Code, to be treated as a Canadian resident company (as defined in the Income Tax Act) for Canadian income tax purposes. As a result, the Company will be subject to taxation both in Canada and the United States which could have a material adverse effect on its financial condition and results of operations.

Risks associated with TILT's business:

Business model risk

The Company cannot assure profitability. The Company has a limited operating history and a history of losses, so it is extremely difficult to make accurate predictions and forecasts of its finances. This difficulty is compounded by the fact that the Company will operate in the cannabis industry, which is continuously evolving. Thus, there is no guarantee that the Company's products or services will be attractive to potential consumers. If no additional states, U.S. territories or countries allow the legal use of cannabis, or if one or more

jurisdictions which currently allow it were to reverse position, the Company may not be able to grow, or the market for the Company's products and services may decline. There can be no assurance that the number of jurisdictions which allow the use of cannabis will grow, and if it does not, there can be no assurance that the existing jurisdictions will not reverse position and disallow such use. If either of these events were to occur, not only would the growth of the Company's business be materially impacted in an adverse manner, but the Company may experience declining revenue as the market for the Company's products and services declines.

The Company is a holding company as all of its assets are the capital stock of its subsidiaries in each of the markets the Company operates in and/or holds or recently held licenses in the adult-use and/or medicinal cannabis marketplace in California, Massachusetts, Nevada, and Pennsylvania; and has no material assets other than: (i) cash on hand; and (ii) ownership of its subsidiaries and minority interests in certain operating companies. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. To the extent that the Company requires funds, and its subsidiaries and such other entities are restricted from making such distributions by applicable law, regulation or contract, or are otherwise unable to provide such funds, it could materially adversely affect the Company's liquidity and financial condition, as well as its ability to make distributions to its shareholders. In the event of a bankruptcy, liquidation or reorganization of any of the Company's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company. The Company has no earnings or dividend record, and the ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. Dividends paid by the Company would be subject to tax and, potentially, withholdings. The Company does not anticipate paying any dividends in the foreseeable future.

Dependence on suppliers and skilled labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure plans may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the Company's business, financial condition, results of operations or prospects.

Reliance on third-party suppliers

The Company will be reliant on third-party suppliers to develop and manufacture its products. Due to the uncertain regulatory landscape for regulating cannabis in the United States, the Company's third-party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers,

manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

The impact of the COVID-19 pandemic on the Company and its operations is uncertain

The Company may be impacted by business interruptions resulting from pandemics and public health emergencies, including those related to COVID-19. An outbreak of infectious disease, a pandemic, or a similar public health threat, such as the ongoing outbreak of COVID-19, or a fear of any of the foregoing, could adversely impact the Company by causing operating, manufacturing, supply chain, and project development delays and disruptions, labor shortages, travel, and shipping disruption and shutdowns (including as a result of government regulation and prevention measures). It is unknown whether and how the Company may be affected if such a pandemic persists for an extended period of time, including as a result of the waiver of regulatory requirements or the implementation of emergency regulations to which the Company is subject. Although the Company has been deemed essential and/or has been permitted to continue operating its facilities in the states in which it cultivates, processes, manufactures, and sells cannabis during the pendency of the COVID-19 pandemic, there is no assurance that the Company's operations will continue to be deemed essential and/or will continue to be permitted to operate. The Company may incur expenses or delays relating to such events outside of its control, which could have a material adverse impact on its business, operating results, financial condition and the trading price of the Common Shares.

To date, there have been a large number of temporary business closures, quarantines and a general reduction in consumer activity in Canada, the United States, Europe and China. The reduction in people's ability and willingness to go into public to purchase cannabis at brick-and-mortar retail stores, travel to and work for the Company and its subsidiaries, and provide other necessary services for the operation of the Company's business as a result of the COVID-19 pandemic may have a material adverse effect on the Company's business, results of operations and financial condition. The outbreak has caused companies and various international jurisdictions to impose travel, gathering and other public health restrictions. While these effects are expected to be temporary, the duration of the various disruptions to businesses locally and internationally and the related financial impact cannot be reasonably estimated at this time. Similarly, the Company cannot estimate whether or to what extent this outbreak and the potential financial impact may extend to countries outside of those currently impacted. The Company is actively assessing and responding where possible to the potential impact of the COVID-19 pandemic. Such public health crises can result in volatility and disruptions in global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk and inflation. The risks to the Company of such public health crises also include risks to employee health and safety, a slowdown or temporary suspension of operations impacted by an outbreak, increased labor and fuel costs, regulatory changes or backlog, political or economic instabilities or civil unrest. At this point, the extent to which COVID-19 will or may impact the Company is uncertain and these factors are beyond the Company's control; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management

The Company's finances and operations may differ materially from management's expectations. The process for estimating the Company's revenue, net income and cash flow

requires subjective judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses is performed. However, these assumptions may not prove to be accurate, and other factors may affect the Company's financial condition and operations.

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations

The Company expects to incur significant ongoing costs and obligations related to its investment in growth and regulatory compliance, which could have a material adverse effect on the Company's operations, financial condition and cash flow. In addition, changes in regulations, heightened enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increase compliance costs or generate material liabilities. Any of these occurrences could have a material adverse effect on the Company's, operations and financial condition. Efforts to grow the Company may be costlier than expected, and the Company may not be able to increase its revenue sufficiently to offset higher operating expenses. The Company may incur significant losses in the future for a number of reasons, including other risks described herein, unforeseen expenses, compliance or operating difficulties, complications and delays, and other events presently unknown to the Company.

The Company is dependent on regulatory approvals and licenses to conduct its business

The Company's ability to grow, store and sell cannabis in the United States is dependent on the ability of the Company to obtain licenses in the relevant state and local jurisdictions to do so. The Company will be required to obtain or renew further government permits and licenses for its contemplated operations. Obtaining, amending or renewing the necessary governmental permits and licenses can be a time-consuming process potentially involving numerous regulatory agencies, involving public hearings and costly undertakings on the Company's part. The duration and success of the Company's efforts to obtain, amend and renew permits and licenses will be contingent upon many variables not within its control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. The Company may not be able to obtain, amend or renew permits or licenses that are necessary to its operations. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the Company. To the extent permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Company may be curtailed or prohibited from proceeding with its ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a material adverse effect on the Company's business, financial condition, results of operations or prospects.

There is no assurance that the Company's licenses will be issued, extended or renewed by each applicable regulatory authority, or, if issued, extended or renewed on terms that are favorable to the Company. There is also no assurance that the Company's licenses will be renewed by each applicable regulatory authority in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process for any of the licenses held by the Company could impede the ongoing or planned operations of the Company and have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

The Company is subject to changes in laws, regulations and guidelines which could adversely affect the Company's future business, financial condition and operations

The Company's operations will be subject to various state and federal laws, regulations and guidelines relating to the manufacturing, managing, packaging/labelling, advertising, selling, transporting, storing, and disposing of cannabis, including laws and regulations relating to controlled substances, health and safety, the conduct of business operations, and the protection of the environment. Achievement of the Company's business objectives will be contingent, in part, upon compliance with applicable regulatory requirements and obtaining all requisite regulatory approvals. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company.

The Company endeavors to comply with all relevant laws, regulations and guidelines. However, changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to its operations and there is no assurance that the Company will be able to comply or continue to comply with applicable regulations. To the best of the Company's knowledge, the Company is in compliance or in the process of being assessed for compliance with all such state laws, regulations and guidelines as described elsewhere in this MD&A.

Any failure on the part of the Company's to comply with applicable regulations could prevent it from being able to carry on its business

The Company's business activities in all jurisdictions in which it operates are heavily regulated. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the Company's business activities, including the power to limit or restrict business activities as well as impose additional disclosure requirements on its products and services. The Company's activities are routinely assessed for compliance with applicable regulatory requirements. Any failure of the Company to comply with applicable regulatory requirements could result in the Company becoming 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 the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require the Company to pay substantial amounts of money, harming its 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 the Company's business, financial condition, results of operations or prospects.

The Company is subject to uncertainty and change regarding the legal, regulatory and scientific status of cannabis

Achievement of the Company's business objectives is contingent, in part, upon complying with other regulatory requirements enacted by governmental authorities and obtaining other required regulatory approvals. The Company will incur ongoing costs and obligations related to regulatory compliance. The regulatory regime which oversees cannabis is undergoing significant proposed changes and the Company cannot predict the impact of those changes on its business. Similarly, the Company cannot predict a timeline for securing the appropriate regulatory approvals and licenses for its products, or the extent of testing and documentation that may be required by government authorities. Any delays or failures in obtaining 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 operations and finances of the Company. Failure to adapt and comply with regulations may result in additional costs for the Company through corrective measures, penalties and increased restrictions on the Company's operations. In addition, changes to regulations, heightened enforcement thereof and other unanticipated events could have a material adverse effect on the Company's operations and finances by requiring extensive changes to the Company's operations, increasing compliance costs, generating material liabilities, and effecting other aspects of the Company that are currently unknown.

Products in certain of the segments in which the Company operates were recently developed and therefore the long-term health effects of their use have not been determined by the scientific community. If the scientific community were to determine conclusively that use of any or all of these products poses long-term health risks, market demand for these products and their use could materially decline. Such a determination could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's ability to complete strategic alliances or partnerships will be dependent on, and may be limited by, the availability of suitable candidates and capital

The Company currently has, and may in the future, enter into partnerships or strategic alliances with third parties that we believe will complement or augment our existing business. Such partnerships or strategic alliances could present unforeseen integration obstacles or costs, may not enhance our business, and may involve risks that could adversely affect us, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances or partnerships could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances or partnerships will achieve, or that our existing strategic alliances or partnerships will continue to achieve, the expected benefits to our business or that we will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

The Company may not be able to successfully identify and execute future acquisitions or dispositions, or to successfully manage the impacts of such transactions on its operations

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruptions of the Company's ongoing business; (ii) distractions of management; (iii) the Company may become more financially leveraged; (iv) the anticipated benefits and cost savings may not be realized fully, or at all, and may take longer than expected; (v) an increase in the scope and complexity of the Company's operations; and (vi) a loss or reduction of control over certain Company assets.

The presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the results of operations, business prospects and financial condition of the Company. A strategic transaction may result in a significant change to the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

The Company may not be able to develop its products, which could prevent it from ever becoming profitable

If the Company cannot successfully develop, manufacture and distribute its products, or if the Company experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Company may not be able to develop market-ready commercial products at acceptable costs, which would adversely affect the Company's ability to effectively enter the market. A failure by the Company to achieve a low-cost structure through economies of scale or improvements in cultivation and manufacturing processes would have a material adverse effect on the Company's commercialization plans and the Company's business, prospects, results of operations and financial condition.

There are no assurances the Company will achieve successful cultivation

The Company's business involves the growing of cannabis, an agricultural product. The cultivation unit of the business may be subject to the risks that are inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company's growing is completed indoors under climate-controlled conditions, there can be no assurances that natural elements will not have a material adverse effect on any future production.

There is no assurance that the Company will turn a profit or generate immediate revenues

There is no assurance that the Company will be profitable, earn revenues, or pay dividends. The Company has incurred, and anticipates that it will continue to incur, substantial expenses relating to the development and operations of its business.

The payment and amount of any future dividends will depend upon, among other things, the results of the Company's operations, cash flow, financial condition, and variable and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance as to the amount of any such dividends.

The Company's growth and development may be hindered by applicable limitations on ownership of licenses

In certain states, the cannabis laws and regulation limit, not only the number of cannabis licenses issued, but also the number of cannabis licenses that one person may own. For example, in Massachusetts, no person may have an ownership interest, or control over, more than three license holders in any category—cultivation, processing or dispensing. The Company believes that, where such types of restrictions apply, it may still capture significant share of revenue in the market through wholesale sales, exclusive marketing relations, provision of support services, or other manners of arrangement with other industry participants. Nevertheless, such limitations on the acquisition of ownership of additional licenses within certain states or enforcement by regulators in certain states against such services arrangements may limit the Company's ability to grow organically or to increase its market share in such states.

The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business

If the Company implements its business plan as intended, it may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, continued development of the Company's financial and management controls and information systems, stringent control of costs, the ability to attract and retain qualified management personnel, and the training of new personnel. The Company intends to outsource resources and hire additional personnel to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of its equity.

The FDA regulation of medical cannabis may cause novel regulatory compliance and registration requirements

The FDA regulation of medical cannabis and the possible registration of facilities where medical cannabis is grown could negatively affect the medical cannabis industry, which would directly affect the Company's financial condition. Should the federal government legalize cannabis for medical use, it is possible that the FDA would seek to regulate it under the *Food, Drug and Cosmetics Act of 1938*. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, it is unknown what the impact would be on the medical cannabis industry, including what costs, requirements and possible prohibitions may be enforced. If the Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results and financial condition.

Differing local rules and regulations may limit ability to expand into new markets

Expansion of the Company's business into new markets with different rules and regulations or distant from then-existing operations, may not succeed. Any such expansion may expose the Company to new operational, regulatory and/or legal risks. In addition, expanding into new localities may subject the Company to unfamiliar or uncertain local rules and regulations that may adversely affect the operations of the Company. For example, different localities may impose different rules on how cannabis may be cultivated, manufactured, processed, distributed and/or transported. Newly entered localities may also have competitive conditions, consumer preferences and spending patterns that are more difficult to predict or satisfy than the existing markets.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that 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 its sale and use is currently legal, or if existing state laws are repealed or curtailed, the Company's business operations would be materially and adversely affected. Federal actions against any individual or entity engaged in the cannabis industry or a substantial repeal of marijuana-related legislation could adversely affect the company, its business operations and its investments.

The Company may be subject to risks related to the protection and enforcement of its intellectual property rights, and may become subject to allegations that the Company is in violation of intellectual property rights of third parties

As long as cannabis remains illegal under U.S. federal law, 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.

Ownership and protection of intellectual property rights is a significant aspect of the Company's future success. Currently the Company relies on trade secrets, technical know-how and proprietary information that are not protected by patents to maintain its competitive position. The Company tries to protect such intellectual property by entering into confidentiality agreements with parties that have access to it, such as business partners, collaborators, employees and consultants. If any of these parties breach these agreements the Company may not have adequate remedies available. Additionally, Company trade secrets and technical know-how, which are not protected by patents, may otherwise become known to or be independently developed by competitors, in which case the Company's business, financial condition, and operations could be materially adversely affected.

Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's products, trade secrets, technical know-how and proprietary information. Policing the unauthorized use of the Company's current or future intellectual property rights and enforcing those rights could be difficult, expensive, time-consuming and unpredictable. Identifying unauthorized use of intellectual property rights is difficult and the Company may be unable to effectively monitor and evaluate the products being distributed by its competitors and the processes used to produce such products. Additionally, some or all of the Company's current or future trademarks, patents, proprietary know-how, arrangements, agreements, or other intellectual property rights seeking to protect the Company, may be found invalid, not infringed, unenforceable, or anti-competitive in an infringement proceeding. An adverse result in any litigation or defense proceedings could put one or more of the Company's current or future trademarks, patents or other intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could materially and adversely affect the business, financial condition and results of operations of the Company.

Other parties may claim that the Company's products infringe on their proprietary and other protected rights. Such claims, if meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. The Company may also need to obtain licenses from third parties who allege that the Company has infringed on their lawful rights. As such, the Company may not be able to obtain or utilize such rights or licenses at all or on terms that are favorable to the Company.

In the event of a bankruptcy, the Company will not be capable of accessing U.S. bankruptcy protections

Because the use of cannabis is illegal under federal law, many courts have denied cannabis businesses bankruptcy protections, thus making it very difficult for lenders to recoup their investments in the cannabis industry in the event of a bankruptcy. If the Company were to experience a bankruptcy, there is no guarantee that U.S. federal bankruptcy protections would be available to the Company's U.S. operations, which would have a material adverse effect on the Company, its lenders and other stakeholders.

The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights

The Company may be forced into litigation to enforce or defend its intellectual property rights, protect its trade secrets, or determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract the Company's management from focusing on operations. The existence and/or outcome of any such litigation could harm the Company's business. Because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some jurisdictions, the Company may face additional difficulties in defending its intellectual property rights. For instance, the U.S. Patent and Trademark Office does not allow trademarks directly related to cannabis and cannabis products to be registered due to the illegal nature of the business and products under federal law.

Enforceability of contracts

Due to the nature of the Company's intended business and the fact that its contracts will involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in federal and certain state courts. The inability to enforce any of the Company's contracts could have a material adverse effect on the Company's business, operating results, financial condition or prospects.

The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition

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 and business loss claims. Any such losses could have a material adverse effect on the Company's business, operations, sales, cash flow and financial condition.

The Company is currently subject to litigation and may be involved in disputes with other parties in the future which may result in litigation, including class action lawsuits. For example, the Company is currently involved in litigation that alleges it violated the Telephone Consumer Protection Act and California's Unfair Competition Law. If the Company is unable to resolve this and other disputes favorably, its business may be materially and adversely affected.

The Company's operations are subject to environmental regulation

These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government environmental approvals and permits are currently, and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed business activities or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable environmental laws, regulations and permit requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage due to its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or may be more mature as a business

The Company does and expects to continue to face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources, manufacturing and marketing experience than the Company. In addition, there is potential that the cannabis industry will undergo consolidation, creating larger companies with financial resources, manufacturing and marketing capabilities, and product offerings that are greater than those of the Company. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed on terms it considers acceptable. Increased competition by larger, better-financed competitors with geographic advantages could materially and adversely affect the Company's business, financial condition and operations.

The legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of cannabis for medical purposes in some form or another. Increased international competition and limitations placed on the Company by local regulations might lower the demand for the Company's products on a global scale.

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market

The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's CEO, technical experts and sales personnel. The Company will attempt to enhance its management and technical expertise by recruiting qualified individuals who possess desired skills and experience in targeted areas.

The Company's inability to attract and retain employees or engineering and technical support resources could have a material adverse effect on the Company's business, 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, 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 its business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of our employees.

The Company may not be able to develop and maintain lasting relationships with consumers

The Company's success depends on its ability to attract and retain customers. There are many factors which could impact the Company's ability to attract and retain consumers, including but not limited to the Company's brand awareness, its ability to continually produce desirable and effective cannabis products, the successful implementation of the Company's consumer-acquisition plan and the continued growth in the aggregate number of consumers purchasing cannabis products. The Company's failure to acquire and retain consumers could have a material adverse effect on the Company's business, financial condition and operations.

The Company may find it difficult to forecast future market conditions

As a result of recent and ongoing regulatory and policy changes in the medical and adult-use marijuana industry, the market data available is limited and unreliable. Federal and state laws prevent widespread participation and hinder market research. Therefore, the Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the industry. Market research and projections by the Company of estimated total retail sales, demographics, demand, and similar consumer research are based on assumptions from limited and unreliable market data, and generally represent the personal opinions of the Company's management team as of the date of this MD&A. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition

The cannabis industry is 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 several ways, including the loss of strategic partners if they are acquired by or enter into relationships with a competitor, the loss of customers, revenue and market share, or the Company being forced to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operations. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on prices for its products, which could negatively impact the Company's profitability.

The Company may not be able to secure adequate or reliable sources of funding required to operate its business and meet consumer demand for its products

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. There can be no assurance that additional capital or other types of financing will be available or that, if available, the terms of such financing will be favorable to the Company. In addition, from time to time, the Company may enter into transactions to acquire assets or shares of other corporations. These transactions may be financed wholly or partially with debt, which may 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 pursue business opportunities, including potential acquisitions. Debt financings may also contain provisions which, if breached, may entitle lenders or their agents to accelerate repayment of loans and/or realize security over the assets of the Company. There is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing.

The Company may be subject to product recalls for product defects self-imposed or imposed by regulators

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 labelling disclosure. Although the Company has detailed procedures in place for testing its products, 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. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise thereto. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. Moreover, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses. A recall for any reason could lead to decreased demand for the Company's products and could have a material adverse effect on the operations and financial condition of the Company.

The Company is reliant on key inputs, and any interruption of these services could have a material adverse effect on the Company's finances and operation results

The Company's business is dependent on several key inputs related to its growing operations and is a vertically integrated U.S. based consumer packaged goods and pharmaceutical manufacturer in the cannabis industry including raw materials and supplies. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operations of the Company. 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 and operations of the Company.

The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to follow 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 our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, curtailment of the Company's operations, and even prison sentences, any of which could have a material adverse effect on the Company's business, financial condition and operations.

The Company will be reliant on information technology systems and may be subject to damaging cyber-attacks or security breaches

The Company has and will continue to enter into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services regarding its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from many 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.

Given the nature of the Company's products and its lack of legal availability outside of channels approved by applicable governmental and regulatory authorities, as well as the concentration of inventory in the Company's facilities, there remains a risk of shrinkage as

well as theft. If there was a breach in security systems and the Company becomes a victim of robbery or theft, the loss of cannabis plants, cannabis oils, cannabis flowers and cultivation and processing equipment, or if there was a failure of information systems or a component of information systems, could, depending on the nature of any such breach or failure, adversely impact the Company's reputation, business continuity and results of operations. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increased expenses relating to the resolution and future prevention of such breaches and may deter potential consumers from choosing the Company's products.

The Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest

The Company may be subject to various potential conflicts of interest because some of its officers and directors 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 like 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.

Management may not be able to successfully implement adequate internal controls over financial reporting

Proper systems of internal controls over financial accounting and disclosure are critical to the operation of a public company. However, the Company does not expect that its disclosure controls and procedures ("DCP") and internal controls over financial reporting ("ICFR") will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operations could be materially adversely affected, which could cause investors to lose confidence in the Company's reported

financial information, which in turn could result in a reduction in the value of is a vertically integrated U.S. based consumer packaged goods and pharmaceutical manufacturer in the cannabis industry Company.

Canadian individuals affiliated with the Company may be made subject to restrictions on entry into the United States

In the past, U.S. Customs and Border Protection (the “U.S. CBP”) was given the discretion to question Canadians entering the U.S. about their marijuana use and whether to use their response as a barrier to entry. Recently, the U.S. CBP has been focusing on the whole cannabis industry, including investors. Several highly publicized instances of U.S. CBP detaining and even banning Canadian investors from the United States have occurred in recent months. The restriction of travel to the United States of individuals affiliated with the Company, as well as its investors, would materially impair the ability of the Company to conduct business and could materially impact the Company’s results of operations.

The Company, or the cannabis industry more generally, may receive unfavorable publicity or become subject to negative consumer perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the benefits, safety, efficacy and quality of the cannabis distributed for medical purposes to such consumers. Consumer perception of the Company’s products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, political statements, media attention and other publicity (if accurate or with merit) regarding the consumption of cannabis products for medical purposes, including unexpected safety or efficacy concerns arising with respect to the products of the Company or its competitors. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any product, or consistent with earlier publicity.

Future research, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company’s products, operations and financial condition. The Company’s dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity (if accurate or with merit), could have an adverse effect on any demand for the Company’s products which could have a material adverse effect on the Company’s business, financial condition and operations. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis for medical purposes in general, or the Company’s products specifically, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers’ failure to consume such products legally, appropriately or as directed.

Bond requirements and insurance premiums may be economically prohibitive

There is a risk that a greater number of state regulatory agencies will begin requiring entities engaged in certain aspects of the business or industry of legal marijuana to post a bond or significant fees when applying, for example, for a dispensary license or renewal as a guarantee of payment of sales and franchise tax. The Company is not able to quantify at this time the potential scope for such bonds or fees in the states in which it currently or may in the

future operate. Any bonds or fees of material amounts could have a negative impact on the ultimate success of the Company's business. The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labor disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability. Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance does not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its business, results of operations, financial condition or prospects.

The Company's web presence's visibility is not limited by geography.

Internet websites are visible by people everywhere, not just in jurisdictions where the activities described therein are considered legal. As a result, to the extent the Company sells services or products via web-based links targeting only jurisdictions in which such sales or services are compliant with state law, the Company may face legal action in other jurisdictions which are not the intended object of any of the Company's marketing efforts for engaging in any web-based activity that results in sales into such jurisdictions deemed illegal under applicable laws.

Risks associated with owning the Company's securities:

Volatility in the market price of the Company's securities

Securities of publicly traded cannabis companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, currency fluctuations and market perceptions of the attractiveness of particular industries. The value of the Company's securities is also likely to be significantly affected by short-term changes in cannabis, by the Company's financial condition or results of operations as reflected in its quarterly financial statements and by other operational and regulatory matters. As a result of any of these factors, the market price of the Company's equity securities at any given point in time may not accurately reflect their long-term value.

Price volatility of publicly traded securities

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in price will not occur. The market for the Company's equity

will be subject to market trends generally, notwithstanding any potential business of the Company.

Since the Company's securities are currently quoted on the OTCQX, the Company's shareholders may face significant restrictions on the resale of the Company's securities due to state "Blue Sky" laws

Each state has its own securities laws, often called "blue sky" laws, which (i) limit sales of securities to a state's residents unless the securities are registered in that state or qualify for an exemption from registration, and (ii) govern the reporting requirements for broker-dealers doing business directly or indirectly in the state. Before a security is sold in a state, there must be a registration in place to cover the transaction, or the transaction must be exempt from registration. The applicable broker must also be registered in that state. The Company does not know whether the Common Shares will be exempt from registration under the laws of any state. Since the Common Shares are currently quoted on the OTCQX, a determination regarding registration will be made by those broker-dealers, if any, who agree to serve as the market-makers for the Common Shares. There may be significant state blue sky law restrictions on the ability of investors to sell, and on purchasers to buy, our common stock. Investors should therefore consider the resale market for the Common Shares to be limited.

The Company may become subject to disclosure requirements under U.S. securities law

The Company no longer qualifies as a foreign private issuer under U.S. securities law but on the basis that the Company has not triggered the registration requirements under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**") as of December 31, 2020, the Company is unlikely to be required to comply with the periodic disclosure and current reporting requirements of the Exchange Act in 2021. However, if the Company does trigger the registration requirements under the Exchange Act at some future date, the Company will be required to file with the United States Securities and Exchange Commission (the "**SEC**") reports and registration statements on U.S. domestic issuer forms, which are more detailed and extensive than the forms currently available to it, and the Company will have to mandatorily comply with U.S. federal proxy requirements, and its officers, directors and principal shareholders will become subject to the short-swing profit disclosure and recovery provisions of Section 16 of the Exchange Act. The Company would also be required to prepare its financial statements in accordance with U.S. generally accepted accounting principles. In addition, the Company would lose its ability to rely upon exemptions from certain corporate governance requirements under the OTCQX listing rules. If the Company became subject to these requirements, it would incur significant additional legal, accounting and other expenses that it does not currently incur. These rules and regulations could also make it more difficult for the Company to attract and retain qualified members of the Board and more expensive to procure director and officer liability insurance.

Dated: April 14, 2021